

INDIAN ECONOMICS

UNIVERSITY QUESTIONS WITH FULL ANSWERS,

(1909—1925)

BY

A GOLD-MEDALIST.

Sen, Ray & Co.,

Book-Sellers and Publishers,

15, College Square,

CALCUTTA.

1925.

FOR B. A. STUDENTS.

Prof. M. SEN, M.A.

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Indian Economics.

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Question 1.—Write explanatory notes on—*Takavi*, *Abwab*, *Jamabandi*, *Lakhiraj lands* and 'the *Shaharanpur Rules*.'

Answer :—

Takavi—(the word is Arabic and literally means 'strengthening' or 'coming to one's aid').—The Government makes advances to agriculturists (to be recovered in certain convenient instalments) to enable improvements to be made. These advances, in fact, have always been customary in India, as its name suggests. They are governed by Act XIX. of 1883. An 'improvement' includes all works of providing wells and other means of irrigation which can be effected by private effort, as well as drainage reclamation, enclosure and similar other measures. The instalments may not extend as a rule over more than thirty-five years. The Act makes provision for the form of application for a loan and for the security for repayment. Takavi loans involve many formalities and the conditions of repayment are very strict and so they are not popular with the agricultural population.

Abwab.—Besides the land revenue proper, the local officials or zamindars used to levy upon the tenants (or *ryots*) extra charges or cesses called *abwab*. The Government aimed at abolishing them by the Permanent Settlement, and Tenancy Acts but has not yet quite succeeded.

Jamabandi.—The Rayotwari settlements are usually made for a term of 20 to 30 years. During this period each cultivator is free to hold or relinquish whatever fields of his holdings he likes or to take up other available fields. Deductions are sometimes made from his total assessment. Hence there must be an annual settling up to show what lands each ryot has actually held and what amount, on all accounts, he has actually to pay for the year; his *patta* may be revised or he may, if necessary, be given a fresh *patta* every year. This process is called the annual settlement or *jamabandi*.

Lakhiraj Lands—(Arabic *la'* = not, *khira'j* = the land tax under the Moslem law).—Lakhiraj lands are lands exempted

from the payment of the land revenue. Besides lands that are not assessed to land revenue, there are others on which the payment is either remitted or made payable to some grantee. Such remissions or assignments of land revenue were features of the Moslem rule and have been generally recognised by the British Government.

The Saharanpur Rules—In 1855, when the settlement of the Saharanpur District in the United Provinces was being carried out, it was decided that the proportion of the net assets to be taken as land revenue by the Government should be 50 per cent. instead of 66 per cent. This standard has been retained to the present day, though it is unusual now to take so much as a full half of the assets as revenue. The rules are named after the district for which they were framed for the first time.

Question 2.—Describe briefly the more important land revenue systems of British India.

Answer.—See answer to question 7, 1921 and question 6, 1922.

Question 3.—What are the peculiarities of the foreign trade of this country? Account for the permanent excess of exports over imports and indicate the effects of this necessity of increased exports on India's currency policy.

Answer.—See answer to question 8, 1922.

India has a permanent annual excess of exports over imports because with these excess exports India has to pay—

(i) *The Home Charges* of the Secretary of State for India every year.

(ii) Also the annual interest on the foreign capital invested in Indian industries, commerce, etc.

The annual normal excess of Indian exports over imports into India keeps up the demand for bills on India and helps to keep up the rate of exchange the maintenance of which is the cornerstone of Indian currency policy under the present Gold-Exchange standard.

The necessity of excess exports is to enable India to pay the Home Charges of the Secretary of State and the annual

interest on foreign capital invested in Indian industries ; and its effects on India's currency policy are to compel India to have a currency system which will enable it to pay the Home Charges, etc., smoothly and efficiently and for this India has adopted the Gold Exchange Standard.

The Secretary of State requires money in London for meeting the expenses of his office and various other charges. Many merchants in England want to send a large quantity of money to India for the purchase of Indian produce. Thus the Secretary of State has to sell more Council Bills than what is necessary for his purposes. Out of the proceeds of the sale of these Council Bills, two reserves are built up in London—(1) the Gold Standard Reserve, and (2) the Paper Currency Reserve. When rupees depreciate in terms of foreign currencies, in other words, when there is a fall in Indian exchange, the Secretary of State arrests further weakening of the exchange by asking India to suspend its payments abroad. In such cases, he himself makes payments on India's behalf out of the accumulated fund in the Gold Standard Reserve.

Sometimes a portion of the Indian Paper Currency Reserve in London is devoted to the purchase of silver which is sent to India and coined into rupees. Again, there are instances when the Secretary of State buys silver in London and deposits it in the Paper Currency Reserve against which notes are simultaneously issued in India.

Question 4.—*What are 'the Home Charges'? Briefly describe the method by which payments are made by this country (India) to England.*

Answer.—See Ans. to Q. 2, 1917 and Q. 7, 1920.

Question 5.—*Explain the character of Indian famines, and estimate their causes. What are, in your opinion, the most effective remedies to meet this calamity ?*

Answer.—See Ans. to Q. 7, 1919 and Q. 7, 1923.

Question 6.—*Give briefly the chief physical features of India indicating their effect on the industries of the land.*

Answer.—Sir John Strachey rightly remarks that 'India is a continent and not a country', by referring to the divergence

of nationalities, customs, language, religion, climate and natural configuration of the soil. *Geographically speaking, India is divided into four well-marked parts each with distinctive characteristics in condition and product.*

- (i) The Mountain-region of the North.
- (ii) The Indo-Gangetic Plain.
- (iii) The Deccan Plateau.
- (iv) Burma.

I. The Mountain-region of the North.—The territory circumscribed by the Hidukush, Suleiman and Himalayan ranges. It rises suddenly from the plains and stretches along the whole northern frontier of India for a distance of 1500 miles, forming mainly the states of Kashmir, Nepal and Bhutan.

Economic Features.—(1) Almost all the great rivers of India come from the Himalayas. The northern plain owes much of its productiveness to these rivers.

(2) The water-power furnished by the hill streams is of immense economic value.

(3) Vegetation varies according to climate. Large areas of forest grow valuable timber, Deodar, Sal, Teak, etc. Fruit, maize, millets, rice, wheat, barley, tea are grown in this part of India.

II. The Indo-Gangetic Plain.—It stretches from the foot of the Himalayan regions down to the Vindhya ranges which cross the middle of India from west to east. It includes the basins of the great Himalayan rivers—the Indus, the Ganges and the Brahmaputra (in the lower part of its course), and the desert tracts of Rajputana. The second division of India is a great, almost unbroken, plain, noted for its rich fertility, with the exception of the desert tracts just mentioned.

Economic Features.—(a) The rivers are valuable as irrigating and fertilising agents. (b) They afford ready highways for traffic. (c) They are land-makers.

In this part of India forest products are grown in abundance. Mulberry trees of Bengal have given rise to silk industries of the province. The Punjab grows wheat and barley. Rice and

jute are extensively cultivated in lower Bengal. Jute is a monopoly of Bengal and is responsible for a flourishing industry in the province. Bengal coal-fields supply the largest quantity of fuel to other parts of India. The Indo-Gangetic plain is famous for the richness of its soil and the variety of its products.

III. The Deccan Plateau.—The Deccan is an elevated plateau of triangular shape with the slope from west to east. Its eastern and western faces are formed respectively by the Eastern and Western Ghats, which meet at an angle near Cape Comorin, the southernmost point of India, on the north it is bounded by the Vindhya ranges.

Economic Features.—The rivers of southern India are not fed by the melting snows of mountains but by the rains. So a meagre rainfall causes drought and brings in its train famines. They are less valuable for purposes of navigation and irrigation than the Northern India rivers.

Millets, oilseeds, tobacco, sugar-cane, pulses, etc., are fairly distributed throughout the table-land. Tea and coffee grow well on the warm damp hill-sides in the south and spices flourish along the south-east coast. Besides forest products, other useful trees are found in large numbers in the plateau. Moreover, it is rich in mineral products, e.g., coal, lime, iron, manganese, mica, gold, etc. But the most valuable crop of this territory is cotton. Availability of raw material near at hand has greatly contributed to the rise of a prosperous cotton industry in the Bombay Presidency.

IV. Burma.—Burma is essentially a hilly country, a continuation of the eastern wing of the Himalayas. The Irrawadi is the principal river and the great commercial highway of the Province.

Economic Features.—The Burma forests are well-known in India. The principal crop is Burma-rice although sugar-cane, cotton, tobacco, etc., are fairly distributed throughout the territory. Burma is noted for its big oil-fields and rich hoard of rubies.

Question 7.—Describe briefly the various systems of irrigation in use in different parts of the country.

Answer.—Irrigation works in India include many things—canals, tanks embankments, etc., by which moisture to soil is

imparted. Irrigation works did not originate with the British Government. There were three memorable irrigation works before the advent of the British—

- (1) Grand anicut across the Coleroon river in Madras.
- (2) The Western Jumna Canal
- (3) The Eastern Jumna Canal.

The present irrigation system of India may be divided into three great types—

(i) *Lift works, as for example, wells.*—The water is raised from a low level by means of manual, mechanical or animal power.

(ii) *Storage works.*—These are reservoirs where water is accumulated by the construction of *dams*.

(iii) *River works.*—They usually consist of *canals and streams*.

(i) Well-irrigation plays an important part in the agricultural system of this country and stands in need of further encouragement. The great merit of well-irrigation lies in the fact that such works are mainly constructed and supervised by private enterprise. As a matter of fact, the *area fed by this type of irrigation comes up to about 30p.c. of the total area irrigated* from works of all classes in British India. The government helps the construction of wells by two ways—by advances of *takavi* loans and by the temporary and permanent exemption from enhancement of revenue of lands improved by such well-irrigation. The chief well-irrigated provinces are the Punjab, the United Provinces, Madras and Bombay.

(ii) *Storage works* are of all sizes, ranging from the great akes, formed by the erection of high dams across the beds of large but irregularly flowing rivers, to the small village tanks. The system of storage works differs from wells in that its administration is generally left in the hands of the State. Tank-irrigation is practically unknown in the Punjab and Sind, but is to be found in some form or other in all other parts of India as well as Burma.

(iii) *The most important kind of irrigation works are river works or canals.* Excepting a few minor projects, the entire system of canal irrigation has been constructed and is maintained by the State. These works may be divided into two classes, *peren-*

perennial and inundation canals. In a perennial canal water-supply is assured all the year round. Inundation canals are those which get a supply of water when streams which feed them are swollen. The Ganges, Jumna, Chenab, Jhelum and Orissa canals are all examples of canal irrigation.

17.5 per cent. of the cropped area in India is irrigated—6.3 per cent. from canals, 5.3 per cent. from wells and 3.3 per cent. from tanks.

Even now there is great scope for extension of irrigation in some provinces, though the prospect of such extension is not unlimited.

Question 8.—*Analyse the sources of Indian revenue, and write a full note on the revenue from opium.*

Answer.—See Answer to Question 1, 1923.

Opium Revenue—Opium is a government monopoly in British India; and the government revenue from opium is derived (1) partly from the opium consumed in India (2) and partly from the opium exported to other countries. The cultivation of opium is permitted only in parts of Behar and the United Provinces and is under the control of the Government. Opium grown in Native States, known as 'Malwa opium,' is permitted to enter British territory only on payment of a heavy duty. By agreement with the Chinese Government, the Government of India have to lessen the area of cultivation annually. The revenue from opium was at one time a very important item in the financial resources of the Government.

Question 9.—*Write a critical note on the nature of land revenue in India. What do you know of the controversy regarding land revenue as being of the nature of a 'tax' or 'rent'?*

Answer.—From ancient times, the land revenue has been the mainstay of Indian finance. The government base their claim to the land revenue on the right of the State to a share of the produce of the soil. The share demanded by the government has varied in different ages and under different rulers; but the successive governments in India have at all times in the past raised the greatest portion of their income from the land. Payment of the land revenue is quite in keeping with the tradition and habit of the people.

About a quarter of a century ago the land revenue was far and away the biggest source of income to the State. In the year 1922—23 the Land Revenue yielded 18 p.c. of the total income of the Government of India and in point of productivity was second only to the yield from customs the contribution of which amounted to about 21 p.c.

See also Answer to Question 12, 1921.

Question 10.—*Write notes on—The Cotton Excise Duty; The Salt Tax; The Famine Insurance Fund; The so-called Limping Bimetallism prevailing now in this country; and Co-operative Credit Societies.*

Answer.—**The Cotton Excise Duty.**—See Answer to Question 3 (e), 1918.

The Salt Tax.—See Answer to Question 13 (1), 1921.

Famine Insurance Fund.—The total cost of Famine Relief to the government during a period of ten years preceding 1877—78 amounted to about Rs. 15 crores. Calculating on that basis, the Government of India began to set apart from that year a sum of Rupees one and half crore annually for combating famines. Though famine would not occur every year, it was thought advisable to be forearmed against it. In normal years, however, this fund remained unutilised and gave rise to the criticism that the government was taxing the people beyond the requirements of the State. It was ultimately decided to employ the Fund (a) for Famine Relief in any year and in any part of the country when and where there was actual scarcity; (b) the construction of Protective Works like Irrigation Canals or Railways which, without being directly remunerative, would yet be of immense service in raising or transporting food-stuffs in famine-stricken areas.

Limping Bimetallism.—It implies (1) both metals are unlimited legal tender but (2) the coinage of one metal is either restricted or suspended. For instance, France and some other European countries have still both gold and silver as full legal tender at fixed ratio; but to maintain that ratio they have suspended the coinage of standard silver coins. India cannot be said to possess the limping standard, though some of the features of its Currency System closely resemble those of limping bimetalism—India possesses rather the Gold-Exchange

Standard. In a limping bimetallism there is free coinage of one metal and a circulation of both gold and silver; in India there is no circulation of gold and so India has not limping bimetallism. India has gold available only for foreign payments and so India has got the Gold-Exchange Standard. For a fuller exposition of the Indian Currency System—See Answer to Question 6, 1919.

Co-operative Credit Societies.—See Answer to Question 8, 1917 and Question 5, 1918.

Question 11.—*State the so-called 'infant industry argument' for protection. Is such protection necessary for India of to-day? Would you favour the inclusion of India in a system of inter-imperial preferential duties?*

Answer.—See Answer to Question 11, 1920 and Question 10, 1921.

Question 12.—*State concisely some of the chief obstacles in the way of India's economic progress. What are the country's requirements for an efficient manufacturing growth and what are the special needs for agricultural development?*

Answer.—See Answer to Question 3, 9 and 10, 1920 and Question 3, 1922.

1910.

Question 1.—*Write notes on :—The Mogul System of Jaigirs, Takkavi, 'The Saharanpur Rules' and the Raiyatwari Village.*

Answer. **The Mogul System of Jaigirs.**—In some states provision was made by petty grants for the support of the families of soldiers who had fallen in the king's service. Besides these smaller and special grants, the governments always and everywhere had been in the habit of making over tracts of land, and assigning the revenue of them to some person on condition of military or political service of some kind. This was regularly done in the case of Mogul officers of state, each of whom held a *mansab*, i.e., a title with an

assignment of revenue to support his dignity and also to maintain a certain number of troops, which he has to call out when he was required to join the Imperial Standard in war or on ceremonial occasions, or for duty at Court.

Very often frontier tracts, or those which were troublesome to manage, were made over in this way to military chiefs or others capable of controlling and developing the districts.

This class of assignment was called *jaigir*. At first the grant was only for life but in later times it was allowed to become hereditary.

Takkavi.—See Ans. to Q. 1, 1909.

'The Saharanpur Rules'.—See Ans. to Q. 1, 1909.

The Raiyatwari Village.—See Ans. to Q. 2, 1909.

Question 2.—*What do you understand by the settlement of land? Give, in outline, the main features of land settlements in India and more particularly of the permanent settlement in Bengal.*

Answer.—See Ans. to Q. 2, 1909, Q. 6, 1917 and Q. 3, 1919.

Question 3.—*What do you consider to be the real function of foreign capital in developing the resources of a backward country like India? Consider the educative influence of foreign capital in this country.*

Answer.—*Advantages of foreign capital:—*

(1) The effect wrought by the investment of foreign capital obviously depends on the purposes for which such capital is used. If the capital is employed with the object of securing a development of the borrowing country's resources, *foreign capital will clearly tend to increase the income of the country (India), to enlarge the demand for labour and to develop industries* and to improve the economic condition all-round. Moreover, apart from the intrinsic benefits of increased supplies of capital, the foreigner who brings his capital supplies the country with many things of which it stands greatly in need.

(2) It is on the whole the *foreign capitalist who imports into the country the technical knowledge and the organisation which are needed to give an impetus to industrial development. It is to him that one must look largely at first for the introduction of new industries and for instruction in the economies of mass*

production. By admitting foreign capital freely, a backward country like India admits *the most up-to-date industrial methods and the newest ideas* and it benefits by adopting those methods and assimilating those ideas. *This is the educative influence of foreign capital.*

But history shows that *foreign capital may be used for purposes of exploitation* in the worst sense of the word. European relations with India, Africa and Egypt are eloquent examples. Foreign capital has been employed in numerous instances to drain countries of their resources, to weaken them economically and 'to degrade' them morally. The danger is especially great when highly organised communities are brought into contact with peoples of lower education and intelligence. The borrower country finds itself bound to the chariot wheel of its creditor.

See also Ans. to Q. 9, 1917.

Question 4.—*What are the Home Charges? Briefly describe the method by which payments are made by this country (India) to England.*

Answer.—See Ans. to Q. 2, 1917 and Q. 7, 1920.

Question 5.—*Briefly summarise the recent currency legislation of India. Indicate briefly the circumstances that led to it and explain the necessity of artificially maintaining the exchange in India's favour.*

Answer. 1835—1893. The Silver Standard in India.—

India continued to be a silver standard country (with free coinage of silver) from 1835 to 1893. But the discovery of silver mines and the demonetization of silver by many advanced countries caused a heavy fall in the price of silver in the last quarter of the 19th century. From 1871 onward, the exchange value of the rupee fell continuously with the fall in the value of the white metal. The exchange rate for the rupee dropped from 2s. in 1871 to 1s. 3d. in 1892. Although for internal purposes it did not matter much, yet in the trade relations of India with gold standard countries, it produced very harmful results.

The Herschell Committee (1892) and the Currency Act of 1893.—*The rupee becomes a token coin. The mints closed to*

the free coinage of silver (1893). Gold standard not introduced.

In 1892, a Committee presided over by Lord Herschell considered proposals submitted by the Government of India for the closing of the Indian Mints to the free coinage of silver and for the adoption of the gold standard by India. In compliance with the recommendations of this committee the Act of 1893 provided for the closing of the Indian Mints to the free coinage of both gold and silver, the Government retaining the power to coin rupees on its own account. Notifications were issued arranging for (i) the receipt of gold at the rate of 16*d* per rupee, and for (ii) the receipt of sovereigns and half sovereigns in payment of dues to the Government at the rate of Rs. 15/- for a sovereign. The net results of these two steps were (1) that the exchange value of the rupee ceased to be linked with the price of silver, (2) that *silver became a token coin* and ceased to be the standard of value, though it continued to be needed as the chief material of currency. *Gold, however, was not declared legal tender and was not made the standard of value.*

The Fowler Committee (1898) and the Currency Act of 1899.—*The rupee remains a token coin as after 1893. Gold standard introduced.*

In 1898 another committee was appointed under the presidency of Sir Henry Fowler. Their chief recommendations published in 1899 were (1) that the *British Sovereign should be made a standard of value, legal tender and a current coin in India*; (2) that the rupee, though a token coin, should also continue to be legal tender to an unlimited extent; (3) that sterling rate for the rupee should be fixed at 1*s.* 4*d.*; (4) that the *Indian Mints should be thrown open to the unrestricted coinage of gold*; (5) that the Mints should not be re-opened to the free coinage of silver; (6) that fresh rupees should not be coined until certain state of things is attained; and (7) that any profit on the coinage of rupees should be kept in gold as a special reserve.

The Government of India approved of these suggestions, and proceeded to give effect to them. In September, 1899, the sovereign was declared legal tender in India, but the rupee also continued to be legal tender to an unlimited amount. Arrangements were to be made to open in India a branch of the Royal Mint for the coinage of gold, but the scheme was dropped in 190

The present Gold-Exchange Standard in India. The Chamberlain Commission (1914).

The existing monetary standard is what has come to be known as the *Gold-Exchange Standard*, that is, a gold standard without a gold currency. For in India, gold is not used by people as a currency for ordinary transactions within the country, but it is made available for discharging obligations arising out of international trade. The Chamberlain Commission which was appointed in 1914 to report on the currency situation of India recorded its opinion in favour of the Gold-Exchange Standard and observed that gold in circulation was "wasteful" and "that it would not be to India's advantage to encourage such circulation."

See also answer to question 9, 1921.

The causes for maintaining the exchange in India's favour.

If the exchange turns against India, i. e., if rupee depreciates in terms of sterling, (in other words if the rupee falls in value as compared with the sovereign), (i) the Government of India suffers great loss in making remittances to meet its various obligations (e.g., Home Charges) in England. The number of rupees required for defraying the expenditure in England increases with each fall in the exchange rate of the rupee. (ii) The Government has also to pay exchange compensation allowance to British officials in India to make good the loss which the latter appear to suffer. This may render necessary a considerable increase of taxation.

(iii) Moreover, the violent oscillations in the rate of exchange upset trade conditions and hinder the development of this country by foreign capital.

All these considerations explain the necessity of artificially maintaining the exchange in India's favour.

Question 6.—Write notes on :—The revenue from opium ; the Cotton Excise Duty ; the Salt Tax ; the Co-operative Credit Societies.

Answer.—See ans. to question 8 and 10, 1909.

Question 7.—Arrange in order of their importance the chief industries of India. Give the main features of India's agricultural

problem and indicate the legislative measures and other steps taken by the Government during the last fifty years to meet some of the evils of our agricultural situation.

Answer.—At the present moment India is very backward in the matter of manufacturing industries. But there was a time when she was one of the chief manufacturing countries of the world. The metal industries and the cotton fabrics in particular reached considerable magnitude in many parts of the country. The unfair competition of the Western mill-made products, the lack of Government support and the want of capital, initiative, energy and training of the Indian producers combined to paralyse the industrial activities of India for a long time. Recently, however, some progress has been made towards industrial regeneration in this country.

A short review of the more important of the industries will give an idea of the present industrial position of the country. The industries are usually classified under the following heads :—

- (1) Textile, fabrics and dress, cotton, jute and silk ;
- (2) food, drink and stimulants ; (3) metals, metallic manufactures, precious stones and minerals ;
- (4) glass—earthen, and stoneware ; (5) building requisites ; (6) light, fuel and forage ; (7) vehicles and vessels ; (8) wood, cane, leaves, etc. ; (9) drugs, dyes, gums, and chemicals ; (10) leather, horns, etc. ; and (11) articles of supplementary requirements.

Weaving is the most important industry of the country next to agriculture. During the last thirty-two years there has been a great development of the cotton mill-weaving industry—especially in Bombay and Central Provinces. In Bengal, there has been an immense development of the jute industry during the last half a century. A few silk factories have been established in Bengal and Bombay. In the Punjab and the United Provinces a number of flourishing woollen mills have been started. Paper mills are now working at several towns—but their condition is not everywhere promising. The manufacturing industries connected with food grains are rice-hulling, wheat-milling, bakeries and biscuit manufactures. Flour mills have:

of late been started in various towns. Seven small sugar factories have been established in this country. Leather industry is in a very progressive state and tanneries have been established all over the country, the most important centres of manufacture being Agra, Cawnpur, Calcutta, Bombay, Cuttuck and Madras. The Tata Iron and Steel Works have been started on a gigantic scale and are turning out products of superior quality. The railways have founded their own workshops some of which are of considerable size. Glass industry has a chequered career in India but it appears to be overcoming the difficulties that blocked its progress. Several chemical factories have achieved notable success in India. Gold, silver, copper, brass and aluminium wares are made locally in considerable quantity. Coal, mica, petroleum and other mining industries have reached considerable magnitude in different parts of India.

See also answer to question 2, 1918 and question 10, 1920.

Question 8.—*Write a note on the production and character of coal and iron ore in India indicating location of mines with special reference to the possibilities of Bengal coal industry.*

Answer.—*Coal is the most important of the mineral products of India. Its quantity is large and quality medium.* It is found chiefly in Bengal, Behar, Assam and Central Provinces. Iron ores of a superior quality are to be found in abundance in various provinces of India. The chief iron districts are Barakar, Chaibassa and Itori in Bengal, the northern and eastern parts of the Central Provinces, the eastern half of Central India and some other parts of this country. At present, however, iron is nowhere worked to any considerable extent except in Tata Iron and Steel Works at Jamshedpur ; but it is hoped that there will be a great expansion of the production and manufacture of iron ore in the near future.

The production and consumption of Indian coal have steadily increased in recent years, particularly since 1906, but the coal resources of the country have not yet been fully exploited. The Raniganj and Jheria are the two principal coalfields and from them are derived 83 per cent. of the total output. The former lies chiefly in the Burdwan district of Bengal, and the first working dates from 1820, while mining on the Jheria field

which is in the adjoining province of Behar, began in 1893. Bengal coal is not of a very superior quality. India is now making an attempt to take her place among the industrial nations of the world, so her demand for coal is rapidly increasing. With better facilities for transport, there is a promising future for the Bengal Coal Industry.

Question 9.—Give a general idea of India's imports and exports and indicate in which direction India should cultivate her exports.

Answer. Analysis of Exports and Imports.—See Ans. to Q. 11, 1920.

(1) *Agriculture is the main industry of India.* It becomes evident from an analysis of the country's exports and imports that India exports largely agricultural products—foodstuffs, raw materials, namely, jute and cotton, oilseeds, timber, etc., and brings in largely manufactured goods—textiles, hardware, glassware, paper and other finished commodities. Agricultural goods, e.g., wheat and rice, jute and cotton, thus form the main items of India's export and the law of comparative cost demands that India should cultivate export-trade in these commodities inasmuch as the country possesses relatively the greatest facilities in producing them. In fact, no theoretical flaw can be pointed out in the above chain of argument.

But India need not remain for long the hewer of wood and the drawer of water for the rest of the world. Vast natural resources lie untapped in India. If they are utilised properly with up-to-date methods and machinery there is no reason why India should not find herself a manufacturing country like the advanced nations of the West. Moreover, India has the examples of the U. S. A. and Japan before her view. Both these countries made a rapid transition from the agricultural to the manufacturing stage and are now counted as representing the most progressive peoples of the world. India, as well, can proceed along these lines, develop her manufactures and push their sale in the markets of the foreign countries. Recently a tendency in this direction is being noticed. Foreign demand for Indian jute and cotton manufactures are steadily increasing and it is confidently hoped that in the years to come manufactured goods will figure side by side with raw materials and food-stuffs in the export returns of India.

Question 10.—*State the case for the extension of (a) railways, and (b) irrigation works as means for the prevention of famine. Would you advocate one or the other more particularly at the present stage of their development, and why?*

Answer.—See Ans. to Q. 6, 1918, Q. 4, 1920 and Q. 11, 1921.

Question 11.—*State the so-called 'infant industry argument' for protection. Is such protection necessary for the India of to-day? Would you favour the inclusion of India in a system of inter-imperial preferential duties? Give reasons.*

Answer.—See Ans. to Q. 11, 1920 and Q. 10, 1921.

1911.

Question 1.—*Give a brief account of the various measures adopted by the government to relieve agricultural indebtedness in its country.*

Answer.—See answer to question 2, 1918.

Or,

Give the chief features of the Co-operative Credit Societies Act of 1904 and discuss the limits of government help in the development of rural co-operative credit.

Answer.—The main provisions of the Co-operative Credit Societies Act of 1904 were :—

(a) Any ten persons, inhabitants of the same village or town and belonging to the same caste or class might be registered as co-operative society for encouraging thrift and self-help among the members.

(b) The main business of these societies was to raise funds by deposits from members, and loans from non-members, from the Government and from other co-operative societies.

(c) To distribute this money as loans to members or with the permission of the Registrar to other co-operative societies.

(d) A special Government officer—the Registrar of co-operative societies—was to organise and control these societies.

(e) The accounts of every society were to be audited by the Registrar or the Auditor of these societies.

(f) In rural societies, the members' liability was unlimited.

(g) No dividend was to be paid in these rural societies. All profits were carried to the Reserve Fund till it reached a certain limit, and then a bonus might be given to members.

The one outstanding feature of this Act was the want of any considerable state assistance both in administration and in getting of funds. It was alleged that such societies would meet with considerable difficulties if unprovided with substantial aid from the State. On all these points, however, experience has proved these forebodings to be more or less groundless.

Moreover, there is a limit to state help in these matters. Co-operation is essentially a people's movement and as far as possible it should be kept free from excessive state interference, official redtapism and regimentation. The plant of co-operation which draws its sap from the multitude will not exhibit a vigorous growth in the soil of officialism and bureaucratic inspection. Experience has repeatedly shown that it is not the state authorities with big purse that are wanted to set the thing in motion but the persons, be they ever so humble and ever so poor, who can provide the real workers and shoulder the proper responsibilities. This is the lesson furnished by all countries where the co-operative movement has been a success.

Question 2—*What do you know of the following scheme and measures :—*

(a) *Building grain elevators at the port of Karachi.*

(b) *Improvement of Indian cotton.*

(c) *Legislation for our Insurance Companies.*

(d) *Making of Rs. 10 and Rs. 50 notes universal in the country.*

Answer.—(a) Though India produces about one-tenth of the world's wheat, this food grain is an indispensable article of consumption in the Punjab only. In other provinces,

extension of cultivation has been dictated rather by the prospects of profitable export to Europe than by internal demand. The five principal countries exporting wheat in pre-war times were the United States of America, Russia, Canada, the Argentine Republic and India in that order. As regards production, India occupied the third place with about a third of the American crop and nearly double that of Canada.

Although India is one of the principal exporting countries, the farmers have no adequate arrangements to preserve their crops. This circumstance compels them to sell all their wheat at harvest time at prices lower than those current in later months. The foreign demand for Indian wheat is steadily increasing. In order to meet this demand and allow the cultivators the benefit arising out of it, attempts have been made to provide the cultivator with the means of storing his crop for future sale. With this end in view grain elevators or warehouses have been built at the port of Karachi which exports wheat to different foreign countries.

(b) Cotton is one of the most important commercial crops in India. But the quality of the product is inferior to that of the U. S. A. and Egypt and also the yield of cotton per acre is less. Indian markets are as a whole unaccustomed to deal in anything but short-staple cotton. Mr. Jamsetji Tata was the first who conceived the idea of producing finer staple cotton in India. The Agricultural Department has taken active measures to improve superior indigenous varieties and made successful experiments with exotic cottons. It has been fully demonstrated that exotics, such as *American* and *Egyptian*, can thrive well in Sind; *Cambodia* in Madras, and *Buri* in the Central Provinces. The report of the Indian Cotton Committee was published in 1919. It made various recommendations for the improvement of the quality and an increase in the outturn of Indian cotton. Some of these recommendations have been and are being carried into practice.

(c) India is now passing through a stage of industrialisation. With the multiplication of factories and workshops, introduction of rail and ocean ways and construction of warehouses and ports, life as well as undertakings have become far more risky than they were in the past. Hence the problem of insurance against risk, life, fire, marine and so forth, has

assumed very great importance. A considerable number of insurance companies has been established quite recently. Hence the government has passed a measure controlling them and safeguarding the rights and interests of the share and policy holders. The Act IV of 1912 provides:—

(1) That every life assurance company shall deposit Rs. 2 lacs in a manner stated in detail in the Act.

(2) Accounts, Balance Sheets, Abstracts, etc., must be printed and deposited with the Governor General in Council.

(3) Shareholders and policy-holders have a right to claim copies of the above.

(4) The Government may appoint inspectors to examine into the affairs of the companies.

(5) The Government retains the power of making or amending rules.

(d) There were eight circles of note-issue having their headquarters at Calcutta, Cawnpur, Lahore, Bombay, Karachi, Madras, Calicut and Rangoon respectively. Until 1910, the ten and fifty rupee notes were legal tender only within the particular circle from which they had been issued.

But the growing familiarity of the people with the use of the paper currency led the Government to universalise the ten and fifty rupee notes in 1910.

The universalisation of ten and fifty rupee notes in India, has made the notes more popular, has helped trade and has increased the note circulation.

Question 3.—(a) *Locate the following crops, and indicate the climatic and other conditions which favour their growth in the particular localities—wheat, cotton, jute and rice.*

Answer.—*Rice* is grown in areas of heavy rainfall, as for instance, Bengal, Assam, Burma and the coast line of Bombay. The varieties of rice are innumerable. In Bengal, there are two main harvests. The *aus*, or early crop, and the *aman*, the later crop. The former does not require as much rainfall as the latter does. Rice is an important crop also of Madras. In the United Provinces it is grown either in damp localities

or with the help of irrigation. It is practically the sole crop in deltaic swamps.

Wheat is grown more or less in every province of India. The great wheat producing tracts, however, are the United Provinces, the Punjab, Behar, the Central Provinces, and Rajputana. The conditions favourable for the growth of wheat are exactly the reverse of those of rice; consequently, we notice that, broadly speaking, where rice thrives, wheat does not. Wheat is a winter crop, and wherever possible it is irrigated. The area under wheat cultivation has greatly increased with the extension of canal irrigation.

Among the fibre crops, *jute* and cotton, of course, are the most important. Bengal holds the virtual monopoly of jute in the world. The area under jute is over 3 million acres. Jute is chiefly grown in land which is liable to be submerged in the rainy season. The conditions which are suitable for rice are also suitable for jute. It is an extremely paying crop. A large proportion of the product is exported to foreign countries.

Cotton holds a very prominent place among the agricultural products of India. It is grown more or less over almost the whole of India. The principal cotton-growing tracts, however, are the plains of Guzerat and Kathiawar, the Tinnevely, Madura, Coimbatore, and ceded districts of Madras, the high lands of the Deccan, the valley of the Central Provinces and Berar. Cotton falls into two classes: cotton crop and tree cotton; these again divide themselves into numerous varieties. The most suitable soil for the crop, *i.e.*, the black-cotton soil, is found in the Deccan. The existence of a thriving cotton-mill industry has greatly encouraged the cultivation of this crop. Mr. Arno Schmidt believes that cotton cultivation is capable of being considerably improved, and that "the cotton crop of India can be doubled without even interfering with the growing of food supplies."

See also Ans. to question 2 (b), 1911.

(b) *Locate the following mining industries—coal, iron, manganese and gold.*

Answer.—See answer to question 2, 1919.

Question 4.—*Estimate the following as remedies against famines :—(a) increased irrigation ; (b) increased transport facilities ; (c) increased industrialism.*

Answer.—See answer to question 6, 1918.

Question 5.—*'Public opinion is overwhelmingly protectionist' (Lees Smith).*

State the chief arguments on which protection is advocated for this country ; and attempt a careful examination of Indian Protectionism.

Answer—See Ans. to question 11, 1920, question 10, 1922, and question 8, 1924.

Question 6.—*You are asked to compare the material prosperity of India to-day with the India say of 40 years ago. What facts and figures will you require, and to which kind of general observation on the part of travellers will you give special weight ?*

Answer—

(1) **Increase of population**—is an evidence of material prosperity. Mere increase in the number of the people is not satisfactory, for the population may increase in spite of poverty and inefficiency. We have to find out whether with the increase in the number of population, *the quality* of the population has been maintained and improved. High death rates indicate poverty. The quality of the population is improved by education, better sanitation, etc.

(2) **National Dividend**.—We have to examine if the National Dividend (the national income) has increased.

Income-tax statistics, wages statistics, Savings Banks deposits, etc. afford good evidence of a country's material prosperity.

(3) **Growth of agriculture or manufacture or both and development of commerce**, both internal and foreign trade—are also signs of the growth of material prosperity.

(4) **Statistics of consumption**—An increase in the consumption of necessities, comforts and luxuries (per head of the population) in a country indicates the growth of material prosperity. In this connection the study of family budgets affords valuable guidance.

The general observation of a traveller visiting India as regards (a) the standard of consumption, (b) the materials and

the make of the houses and clothings, (c) the health of the people, (d) the state of agriculture, manufacture and commerce, (e) the kinds and qualities of public material property like public parks, public libraries and art galleries, public buildings, etc.,—this is entitled to great weight as evidence of the material prosperity of a country.

Question 7.—*Write notes on :—The Opium Revenue, the Cotton Excise Duty, the Silver Duty and our revenue from taxation.*

Answer. The Opium Revenue.—See Ans. to Q. 8, 1909.

The Cotton Excise Duty.—See Ans. to Q. 10, 1909.

The Silver Duty.—Prior to 1910 the import duty on silver bullion was 5 p.c. *advalorem*. This duty was imposed for revenue purpose. In 1910—11 owing to the decrease in China's consumption of Indian opium a great reduction in government revenue was anticipated. To make good this deficit the duty on silver bullion was raised to 4s. per oz. The import duty on silver plate, thread, wire and other silver manufactures was 10 p.c. *advalorem*.

India's revenue from taxation.—See Ans. to Q. 8, 1909 and Q. 1, 1923.

Question 8.—*"The Rupee coinage of India now is to all intents and purposes a token coinage." "The Rupee is for some purposes merely inconvertible money printed on silver." Carefully explain :—*

How does the Rupee, though unlimited legal tender, fail to satisfy the full conditions of standard money ?

Answer.—The two outstanding features of a token coin are that (1) its face value exceeds its bullion value, and (2) it is legal-tender only to a limited extent.

Prior to 1893, the Rupee bore no similarity to token coins. From the year 1893, mints were closed to the free coinage of silver in India and the face value of the coin was declared higher than its bullion value by the artificial limitation of its supply. The Rupee thus came to possess one of the characteristics of token coins. It was, however, unlimited legal tender within the boundaries of India. Rupee, from this time, could not be used for discharging international obligations as the foreigners did not accept the increased artificial value of the rupee secured by the

stamp of the Government of India. Hence the people of this country were given every facility to acquire gold in exchange of rupees for liquidation of their indebtedness abroad.

So far as the law provides, *in India the rupee is inconvertible into gold*. There is no legal enactment compelling any authority to redeem rupees with gold. Inconvertible notes in many countries are printed on paper, the rupee in India is an inconvertible (*i.e.*, not convertible into gold) note printed on silver.

As has been pointed out, *the intrinsic value of Rupee is far below its face value*. It is, therefore, *unacceptable in international exchange*. The Government is under no legal compulsion to pay a sovereign for Rs. 15/. For these reasons, *the Rupee does not fulfil all the conditions of a standard currency*.

Question 9.—*What do you know of the following :—*

The Punjab Land Alienation Act, the Bengal Tenancy Acts, and The Gold Standard Reserve Fund ?

Answer.—**The Punjab Land Alienation Act.**—See Ans. to Q. 10 (c), 1924.

The Bengal Tenancy Acts.—See Ans. to Q. 6, 1920.

Gold Standard Reserve Fund.—See Ans. to Q. 2, 1924.

Question.—*What are the peculiarities of the foreign trade of this country ? Account for the permanent excess of exports over imports and indicate the effects of this necessity of surplus exports on India's currency policy.*

Answer.—See Ans. to Q. 3, 1909.

1912.

Question 1.—*Briefly summarise the currency legislation of 1893 and 1899 in India. Indicate the circumstances that led to it, and explain the necessity of artificially maintaining the exchange in India's favour.*

Answer.—See Ans. to Q. 5, 1910.

Or,

'The rupee coinage of India now is to all intents and purposes a token coinage'.

'The rupee is for some purposes merely inconvertible money, printed on silver.'

Carefully explain the above statements. How does the rupee, though unlimited legal tender, fail to satisfy the full conditions of standard money?

Answer.—See Ans. to Q. 8, 1911.

Question 2.—What are 'Home Charges'? Briefly describe the method by which payments are made by this country to England.

Answer.—See Ans. to Q. 2, 1917 and Q. 7, 1920.

Question 3.—Give some account of India's public debts.

Answer.—See Ans. to Q. 10, 1925.

Question 4.—Discuss the principles of co-operative credit for agricultural communities, and indicate in what direction and why it is now sought to amend the law relating to Co-operative Credit Societies of India.

Answer.—See Ans. to Q. 1, 1911 and Q. 5, 1918.

Defects of the Co-operative Act of 1904.

(1) The Act of 1904 made provision for the establishment of only *credit societies*. It ignored other and equally important aspects of the co-operative movement—it took no notice of co-operative stores, co-operative production, etc.

(2) The distinction between urban and rural societies made by the Act of 1904, served no useful purpose. The relative strength in capital and banking skill which was taken to be the basis of division was no more conspicuous in out-of-the-way towns than in villages.

The progress of co operation made these defects glaring, so a bill was passed in 1912, amending the previous Act.

The chief reforms introduced by the Co-operative Act of 1912 were :—

(1) Formation of societies for purposes other than credit was authorised.

(2) The distinction between the rural and urban societies was removed.

(3) Societies were authorised with permission to contribute to local charitable objects up to 10 p.c. of their profits.

The Act of 1912 greatly widened the scope of co-operation in India. The formation of co-operative production, co-operative distribution and other non-credit societies has fully demonstrated the value of the Act of 1912.

Question 5.—Estimate the following as remedies against famines :—

(a) *Increased irrigation ;*

(b) *Increased transport facilities ;*

(c) *Increased industrialism.*

Answer.—See Ans. to Q. 6, 1918.

Question 6.—What are the peculiarities of the foreign trade of this country ? Account for the permanent excess of exports over imports, and indicate the effects of this necessity of surplus exports on India's currency policy.

Answer.—See Ans. to Q. 3, 1909.

Question 7.—Write notes on :—The Saharanpur Rules ; the Punjab Land Alienation Act ; the Railway Guarantee System ; the Rent Act of 1859 and the Takkavi Loans.

Answer. The Saharanpur Rules.—See Ans. to Q. 1, 1909.

The Punjab Land Alienation Act.—See Ans. to Q. 10 (c), 1924.

The Railway Guarantee System.—See Ans. to Q. 1, 1925.

The Rent Act of 1859.—See Ans. to Q. 6, 1920.

The Takkavi Loans.—See Ans. to Q. 1, 1909.

Question 8.—Characterise briefly the economic transition in India.

Answer.—See Ans. to Q. 2, 1920.

Question 9.—*Examine with reference to India the soundness of the following protectionist arguments:—(a) The infant industry argument ; and (b) the diversification industry argument.*

Answer.—See Ans. to Q. 11, 1920.

Question 10.—*Give an account of the economic geography of the Indo-Gangetic plains.*

Answer.—See Ans. to Q. 6, 1909.

1913.

Question 1.—*Name the principal agricultural and mineral products of India, giving approximately the value of exports of five of the former and two of the latter. What are the countries of their importation? What is the necessity of importing coal into India, which produces in it sufficient quantities to satisfy all home requirements?*

Answer.—(i) **Agricultural products**—cotton, jute, rice, wheat, oilseeds, tea, tobacco. (ii) **Mineral products**—iron, coal, manganese, gold, mica, etc.

1922—23.

Products.	Value of Export. (In thousands of Rupees.)	Countries of their importation.
Cotton ...	72,07,19	England, Japan, China, Germany, Italy and France.
Jute ...	22,52,84	United Kingdom, United States, Belgium, France, Spain and Italy.

1922—23—concluded.

Products.	Valu of Export (In thousands of Rupees.)	Countries of their importation.
Seeds ...	27,35,38	United Kingdom, France, Italy and Australia.
Tobacco ...	82,68	United Kingdom, Straits Settle- ments and Germany.
Grain, pulse and flour.	42,47,63	United Kingdom, Japan, Straits Settlements, China and South Africa.
Coal ...	14,73	Ceylon
Metallic ores, etc.	2,26,11	United Kingdom, Belgium, France and Italy.

There are two causes of the importation of British coal into India, though India produces a large quantity of coal.

(1) *Indian coal is inferior to British coal in quality.* Three tons of British coal possess as much fuel capacity as five tons of Bengal coal. Sometimes the use of coal of a finer quality is absolutely necessary to keep delicate and up-to-date machinery in working order.

(2) *Moreover transport difficulties stand in the way of the general utilization of Bengal coal all over India;* for instance, the Bombay Cotton Mills find it cheaper to import South African and British coal than depend on Raniganj and Jherria coal from Bengal. It is expected that this anomaly will be removed by cheaper and quicker transport facilities.

Question 2.—*State briefly the arguments against the proposal to withdraw the redundant silver currency with a view to establish stability of exchange between gold and silver. How is a stable exchange said to attract British capital to India?*

Answer.—In pursuance of the recommendations of the Herschell Committee, an Act was passed in 1893 closing the Indian Mints to the free coinage of silver and artificially fixing the exchange at the rate of £ 1 for Rs. 15/-. Though these measures greatly counteracted the evils resulting from the continuous falling of the price of silver, they were by no means above criticism—

(1) The Act deprived the Indian peasantry of more than one-third of their only capital because their silver ornaments could no longer be coined into rupees, but had to be disposed of as bullion at about 42 p. c. below the price of the coined silver.

(2) The huge difference in value between coined and uncoined silver encouraged the practice of counterfeiting rupees.

(3) On account of the restriction of supply, the purchasing power of the rupee had a tendency to rise. The taxes payable by the Indians represented more commodities than before the passage of the Act of 1893. Similarly, the burden of debts contracted during the regime of free silver coinage also increased.

Thus the Indian peasant, tax-payer and debtor, each, felt the hardship.

(4) Silver rupees continued to be the medium of circulation for payments within the country. They are constantly required for marketing, payment of taxes, disbursement of salaries and wages, liquidation of debts, etc. Any shortage of their supply and consequent stringency in money market lead to great suffering among the people.

(5) China was a big purchaser of Indian goods. Being a silver standard country, it paid the Indian exporters in its own coins. These coins could no longer be transformed into rupees but had to be sold at what they were worth as bullion. This involved a loss of about 42 p. c. to Indian exporters.

Stability of exchange is a necessary condition for attracting foreign capital into India as well as for the protection of capital already invested. If because of unstable exchange (i) the foreign investor loses all confidence in the future value of the rupee, if he is not sure what the invested capital will be worth when

translated into Indian currency and (ii) if he is in doubt regarding the annual interest which his investment will bring him every year, the supply of external (foreign) capital available for India will diminish greatly. A stable exchange facilitates the free movement of foreign capital to India.

Question 3.—*Describe briefly the character of the Cesses prevalent in Bengal. What was the original object of their imposition? State the arguments for and against the Permanent Settlement.*

Answer—The Land Revenue was Imperial Revenue before the Government of India Act of 1919; a portion of it indeed went to meet the general expenditure of the province; but there were purely local charges, such as district roads, village schools, district public works and the like, which were chargeable on the local proprietors. There are local Acts in each province, under the Permanent Settlement as well as the others, for the levy of such Local Rates. *The Bengal Act I of 1880 authorised the levying of "Road and Public Works Cesses" for such objects as roads, schools, dispensaries and other works of public utility.* The principle of levying cesses as enunciated by the Secretary of State is that the benefits to be derived from these rates should be brought home to the doors of the rate-payers and that these benefits should be direct and immediate. (*Baden Powell*).

See also Ans. to Q. 9, 1919.

Question 4.—*What are the defects and difficulties of Indian agriculture? What special measures have been taken or are yet necessary, for its improvement?*

Answer.—See Ans. to Q. 7, 1910 and Q. 10, 1920.

Question 5.—*Describe the different measures adopted for the production and improvement of Indian forests. What is their economic value in times of famine?*

Answer.—Indian forests have been divided into three classes: (a) *Reserved*, which are maintained and controlled by the State; (b) *Protected*, in which State control is laxer and to which people have free access for many purposes; (c) *Unclassed*, which are given over to the public use subject to the restrictions of the Government.

The Government maintains a Forest Service the members of which, helped by a subordinate staff, look after, preserve and improve the forests of India. Schools have been opened in Dehra Dun, Poona and Shillong where lessons on forestry are delivered and officers trained for the Forest Department.

The preliminary steps taken by the officers are to survey and demarcate the forest area. Arrangements are made for protecting forests from fire and depredations. For the purpose of exporting forest produce attention is given to the improvement of communications. In a forest of decaying condition, existing stock is speedily removed and fresh and healthy plants are grown. Artificial plantation is carried on in several parts of the country. The cultivation of Teak, Deodar, Rubber and other commercial products is encouraged. Sometimes, in barren tracts forests are introduced by the process of afforestation.

Economic value of Forests—

(1) Forests have been regarded as the 'head-works of Nature's irrigation scheme in India.' They lower the temperature of the atmosphere and thus increase the rainfall in the area and help greatly the agriculture of the area. Thus forests by increasing rainfall help to prevent failure of crops and famines.

(2) Again during times of famine, the agricultural population lives partly upon forest fruits, even forest leaves, and the forests supply grazing to the starving cattle of the population during times of famine.

(3) Forests regulate supply of water and prevent erosion of the soil. Dams cannot be built all over the country, leaves of forests are very valuable for this purpose.

(4) Forestry is the handmaid of agriculture. It provides for the wants of agricultural population in the shape of fodder, green manures, fuel, etc.

(5) In manufactures, forests play a great part by supplying raw materials as regards manufacture of charcoal, paper, distillation, etc.

Question 6.—Describe the principal causes that have affected

wages in Bengal. Enumerate the probable causes of the recent rise in prices.

Answer.—During the few years following the great war wages of all kinds of labour rose. The statistics available on this point are not very accurate and reliable. We have also to take note of the circumstances which accompany the 'money wages' in order to find out the 'real wages'. There was a rise in the money rates of wages. The index numbers will speak for themselves.

Movement of Wages

Bengal industries			1914	1915	1916	1917	1918
Mining (Coal) ...	...	...	100	100	100	108	116
Jute ...	...	...	100	101	100	101	103
Tea ...	...	...	100	102	103	109	119

The law of demand and supply is a great regulator of prices and among them of the prices of labour. Workmen of a particular class may be in greater demand at a time and naturally their wages must go up. That is certainly one of the causes of the recent rise in wages in India, and it is intensified by the immobility of labour; and, therefore, by a lack of competition. The available supply of labour has also diminished owing to deaths due to Malaria, Influenza, Kala-azar.

A general rise in prices is another cause of the increase in the scale of wages. Workmen have a certain standard of life and their wages in the long run must approximate to that standard. Generally wages lag behind prices and gradually overtake them. Prices of the necessities of life were steadily rising during the war and in subsequent years. The cost of living reached a higher level and the wages followed suit. The demand for higher wages in response to dearer living could not be ignored. Where peaceful negotiations failed, the strike weapon was used successfully to extort higher wages.

Probable causes of the pre-war rise of prices.—The causes of the high prices, according to Mr. K. L. Dutta, were mainly of two kinds :—(1) Causes peculiar to India, and (2) causes which were world-wide. Among the former were :—

- (i) a decreased production of food stuffs in India;
- (ii) an increased export demand for Indian raw materials and food products;
- (iii) development of communications; and
- (iv) decrease in the cost of transport which encourages export.

Among the latter the chief were :—

- (a) an increased supply of gold;
- (b) development of credit;
- (c) destruction of wealth in wars; and
- (d) expenditure on the armaments.

Mr. Dutta thinks that all these causes combined to raise the prices in India and that the rise was not due to any one cause.

During and after the War, a great increase in the quantity of paper money in India helped to bring about a great increase in the prices of commodities.

Question 7.—*What do the Home Charges consist of? How much of them represents interest on capital invested in India? Do the Secretary of State's drawings exactly correspond with the net export of India's merchandise and treasure?*

S. P.—3—I. E.

Answer.—The following is a table showing *the net expenditure in England of the Government of India, known as the Home Charges*, chargeable on the revenues of the year, 1911—12.

	Lakhs of Rupees.
Interest and management of debt, and payment of interest and annuities on account of railways and irrigation works	16,15 $\frac{1}{3}$
Payments in connection with Civil Departments in India	35
India Office	27 $\frac{3}{4}$
Army and Marine effective charges ...	1,52
Stores of all kinds charged against revenue	1,78 $\frac{3}{4}$
Furlough Allowances	1,48 $\frac{1}{8}$
Non-effective charges (pensions and gratuities of European officials who have served in India).	6,72 $\frac{3}{4}$
Total about ...	28 crores of rupees.

The above table shows that about 16 out of 28 crores consisted of payment on account of capital invested in India in the railways, irrigation works, etc., and belonged to a commercial rather than an administrative class of transactions.

The Secretary of State's drawings do not always correspond with the *net* exports of India's merchandise and treasure. During the first ten years of the 20th century the net exports of India's merchandise and treasure averaged £ 15 millions per annum. But during this period the Secretary of State's drawings amounted to an average of £ 17·5 millions yearly. The discrepancy between these two figures can be explained in this way.

(1) The Home Charges have an item 'stores charged against revenue,' and as these stores are included in the Trade Returns, they must be subtracted from the Home Charges.

(2) Again, when India borrows capital from a foreign country, India on that account receives an increased quantity

of imports which will reduce the amount of excess exports from India.

Question 8.—*Define a 'Zemindari' and a 'ryotwari' settlement. Define also 'net assets.' What are the values and essentials of the Cadastral Record ?*

Answer.—See Ans. to Q. 1 and 3, 1918 and Q. 9, 1919.

1914.

Question 1 —*Analyse Home Charges, and explain how they are met through the operations of trade and commerce.*

Answer.—See answer to question 7, 1913 and question 2, 1917.

Question 2.—*Explain the general principles of Co-operative credit Societies.' In what manner can co-operative associations influence beneficially the village government of your province ?*

Answer.—See answer to question 8, 1917 and question 5, 1918.

Question 3.—*'The rate of exchange is kept from falling by the combined effect of the closing of the mints to the free coinage of silver and the balance of trade in favour of India'.—Explain fully this proposition.*

Answer.—The rate of exchange between the rupee and the pound is kept up and the value of the rupee in exchange with the pound (gold) is prevented from falling by—

- (1) the closing of the Indian Mints to the free coinage of silver
- (2) and the balance of trade in favour of India.

(1) In 1893, the Indian Government closed the Indian mints to the free coinage of silver, thus depriving Indian citizens of the right of bringing silver to the mints and having it coined—in this way the Indian Government checked the increase in the supply of rupees and prevented a rapid fall in the value of the rupee (as compared with the pound). In 1893 the Govern-

ment artificially fixed the par of exchange at Rs 15 = £ 1. In future the Government were to coin rupees according to its own discretion (free coinage of silver being stopped) and to adjust the supply of rupees to trade demand for rupees and thus prevent a fall in the value of the rupee as compared with the pound (gold).

(2) Normally every year there is a balance of trade in favour of India—i. e. India normally has an excess of exports over imports. This excess of exports creates a good demand for the Council Bills of the Secretary of State, and thus keeps up the rate of exchange for the Council Bills. So normally the Secretary of State for India can get a good rate of exchange for every rupee of Council Bill he sells—normally he gets a rate approximating Rs 15 = £ 1 (Re. 1 = 1s—4d), and the rate of exchange is prevented from falling by this balance of trade in favour of India which creates a good demand for Council Bills.

(The Babington-Smith Committee of 1919 has recommended Re. 1 = 2s. as the artificial par of exchange between India and England.)

Question 4.—*Write a note on the Chenab Canal Colony with special reference to the effect of the canal on the trade and agriculture of the Punjab.*

Answer.—The Punjab with its snow-fed rivers and level plains presents the greatest facilities for irrigation. It is in this province that irrigation has turned arid deserts into smiling lands. The Chenab Canal is the most remunerative of the Punjab canals. Low rainfall and absence of streamlets rendered in the past certain tracts of the Punjab entirely unproductive. This has led to the construction of a network of canals and at the present moment no part of the world is so well-irrigated as the Rechna Doab fed by the Chenab Canal. Originally the canal was an inundation canal. But in 1892, a weir and head-works across the Chenab were constructed converting the inundation canal into a perennial one. The canal serves the vast area between the Chenab and the Ravi, known as the Rechna Doab. This tract was an unpopulated waste before the construction of the canal. Now it is a colony of prosperous and progressive peasantry. The total area irrigated by the Chenab canal was in the beginning of the 20th century about 1,829,000 acres.

The colonists have mainly migrated from the overpopulated

areas of the province, where wages were very low. Since the introduction of the canal, cultivation in the Punjab has largely extended and so has production. The province is one of the biggest wheat-growing centres of the world. Among the crops that owe their existence to the artificial irrigation, rice and sugar-cane are fit to be mentioned.

Question 5.—*Describe the present situation of the handloom industry. To what extent and under what conditions can it compete with the powerloom industry?*

Answer.—Hand-spinning and hand-weaving had been from the remote past features of the economic life of India. Hand-spinning was being gradually given up as the home-spun cloth was unable to stand the competition of the Lancashire mill-made stuff. The weavers, however, were reluctant to leave their old and favourite profession and clung to their calling in spite of distress and discouragement. The moribund position of the hand-loom industry attracted the notice of administrators like Messrs. Havell and Chatterton who set themselves to the task of devising means for giving the industry a fresh lease of life.

Mahatma Gandhi's message of the spinning wheel and his exhortation to everybody to spin and wear *khaddar* coupled with the movement of the boycott of foreign cloth gave a tremendous push to the handloom industry. For a time it became a fashion to spin, weave and wear *khaddar* and the consideration of lower price of foreign goods ceased to determine the purchase of cloth by patriotic Indians.

The handloom industry is not without possibilities. *The spinning wheel or charka, preferably in an improved form, can be established with benefit in villages. The output of the charka will there supplement the small earnings of the poor labourer and cultivator, and more weavers than now may ply a profitable trade in those conditions. There are people who think that by adopting improved methods and improved instruments, the handloom may yet successfully compete with powerloom. There are several arguments in favour of the handloom industry:—*(1) It can be worked as a cottage industry where the worker works in his home, economically helped in his work by family members and under the wholesome moral influences of home life, and in the village away from the temptations and degradations of town life and

town industry. (2) The handloom industry does not require large capital and a large quantity of trained labour is available for it in almost every Indian village. (3) Handloom weaving may be practised as a subsidiary occupation side by side with agriculture. (4) Delicate and artistic articles can be produced only by the handloom. (5) The handloom industry can produce coarse articles for the masses which are more durable and so economical than the mill-made cloth.

Those who believe in the future of the handloom industry want to improve the intellectual standard and outlook of the weavers by imparting *education*. With sound technical equipment, improved implements and first-hand knowledge of the market conditions the weaving community may yet withstand the keen competition of the powerlooms. *The introduction of co-operation and provision of cheap credit* will be of immense help to the handloom weavers of India in their bid for progress.

Question 6.—*What are the different classes of irrigation works in India? Explain their relative usefulness in the three provinces of Madras, Bengal (old) and the Punjab.*

Answer.—See Ans. to Q. 7, 1909.

(1) *Well-irrigation* is generally suitable in areas where plenty of good sub-soil water is available. "The most favourable conditions for well-irrigation are found in the alluvial plains of Northern India, the sub-soil of which contains an inexhaustible supply of water." In four provinces, well irrigation is most extensively practised—the United Provinces, the Punjab, Bombay and Madras. (2) *Tanks or storage works* are of all sizes, ranging from the great lakes formed by the construction of high dams across the beds of large, but irregularly flowing rivers, such as Lakes Fife and Whiting in the Bombay Presidency (Deccan) and the Periyar lake in Travancore to the small village tanks to be found throughout Southern India. (3) *The third and most important class of irrigation works, viz, river works or canals* are suitable only in areas where rivers are available in continuous flow during the whole or the greater part of the year. These conditions are realised very well in the Punjab, and in portions of the United Provinces.

In Madras irrigation was introduced and appreciated from the earliest times. The most important works of the Madras

Presidency are the deltaic systems of the Godavari, the Krishna and the Cauvery. There is still room for the extension of irrigation in Madras. If water is thus stored and utilised it will be a standing insurance against famines.

State irrigation works in **Bengal** have seldom proved remunerative as the supply of natural rain water is large in the province. The East Bengal moreover abounds in rivers. In this province the only irrigation system of importance is the Midnapur Canal.

Of all the provinces, the **Punjab** affords the greatest facilities for irrigation (See also Ans. to Q 4, 1914). Notwithstanding the construction of a number of canals, there still remained two large tracts, *viz.*, the Bari Doab and the Sind Sagar Doab, where new fields for irrigation existed. The Government had a project in hand to irrigate the Bari Doab. The scheme had now been carried into practice.

Question 7. *What are the principal articles in which India deals with (a) Germany, (b) Belgium, (c) Austria Hungary, (d) Japan, (e) Java, (f) Mauritius, and (g) the United States? To what countries are Indian rice and wheat exported? What is the approximate annual quantity of the export of each?*

Answer.—

Countries	India imports	India exports
Germany ...	Cotton manufactures, dyes, woollen fabrics, iron and steel, copper, glassware, machinery, etc.	Jute, cotton, tea, wheat, rice, barley, seeds, hides and skins, lac, etc.
Austria Hungary	Match box, pencil, glassware, enamel-ware.	Jute and cotton, hides and skins, etc.
Belgium ...	Iron and steel, yarns and fabrics.	Cotton, wheat, linseed, etc.

Countries	India imports	India exports
Japan ...	Silk and cotton manu- factures, matches, glassware.	Rice, oil-seeds, raw and manufactured jute, iron and steel, hides and skins, etc.
Java ...	Sugar ...	Rice, tea-seed, jute manufactures, opium, etc.
Mauritius ...	Sugar ...	Rice
The United States of America	Motor cars, machinery, oil, copper goods, etc.	Raw and manufac- tured jute, lac, oil- seeds, hides and skins.

1922—23

Commodities	Quantity	Countries where exported
Rice ...	2,125,300 tons	United Kingdom, Japan, Java, Mauritius, Straits Settlements, Ceylon, China, South Africa, etc.
Wheat and wheat flour	270,300 tons	United Kingdom, Germany, Belgium, Austria Hungary, Netherlands, Italy, etc.

1915.

Question 1.—*Draw up a rough statement of debits and credits of India with foreign countries, and explain how they are adjusted. Are there any items on the debit side to which you might take exception as constituting 'a drain' on the economic resources of India?*

Answer.—See Ans. to Q. 1, 1925.

India is a dependency. It can exercise very little choice in matters of recruitment of officers abroad, both civil and military, in purchase of stores, in flotation of public loans and in controlling the investment of foreign capital in this country. *The sum of about £7 millions which India has to pay as pensions and leave pay of European officers (civil and military) on account of its political relations with England may be said to constitute 'the drain'.* The salaries, allowances and pensions which the British officers draw from India are out of proportion to the service which they render to this country. These payments can be reduced by pruning the top-heavy administration and recruiting higher officers from India without the fear of impairing the standard of services as actual experience has long proved. Much of the expenses which is incurred for British army and navy can be easily reduced by substituting a part of the white troops by the Indian soldiers and by introducing various economies into the military administration.

The contribution of £100,000 for British Navy guarding against foreign aggression is open to still greater objection. An elaborate defence of the Indian sea-board is unnecessary because the measures of protection otherwise adopted by India are adequate and complete. The contribution which India has to pay on this item is simply a toll for the maintenance of British imperialism.

Again, the hands of the Indian Government are not unfettered in the matter of purchase of *stores for India*. In quite a number of instances the cheapest tenders coming from the European continent were rejected in favour of English ones. The acceptance of the latter involved a much bigger expenditure, but it was justified on the ground that it encouraged and patronised British industries. Other illustrations may be quoted to indicate

the price which India pays for its political connection with England.

Sir Theodore Morison points out the numerous benefits which India gets in exchange for this 'drain' of seven millions which India has to pay annually on account of the pensions and leave pay of European officials who have served in India.

(1) India gets freedom from external aggression and peace and order in the borders.

(2) India can command, when necessary, the service of the British fleet by contributing only £100,000 towards its up-keep.

(3) The political connexion with England enables India to borrow money for industrial development etc. much more cheaply than it could otherwise do, and as a matter of fact, India can and does borrow money much more cheaply than Japan.

The advantages which the British Navy and British credit confer on India are supposed by Sir T. Morison to be a liberal compensation to India against Indian expenditure on pensions and gratuities to the European officials who have served in India. The Indian view on this question is different.

Question 2. *Enumerate the seven foundation principles of Co-operative Credit Societies in India and justify the necessity or appropriateness of each principle with reference to Indian conditions.*

Answer.—See Ans. to Q. 5, 1918.

Question 3. *Discuss the respective facilities and difficulties of selling up and working a cotton mill in India and in England.*

Answer.—See Ans. to Q. 4, 1918.

Question 4.—*Analyse the arguments for and against the introduction of a gold currency in India.*

Answer.—See Ans. to Q. 7, 1918.

Question 5.—*Discuss the relative values of Railways and Irrigation Works in India as Famine Protective Works.*

How are the funds for constructing Railways and Irrigation works ordinarily provided?

Answer.—See Ans. to Q. 6, 1918.

The railways in India have been constructed by three agencies, *viz.*, (1) guaranteed companies, (2) state itself, or (3) assisted companies.

(1) As regards the guaranteed companies with *private capital*, the government gave land free and in case of the net receipts falling short of the guaranteed interest, i. e 5 p. c. in most cases, the Indian Government had to make up the deficit out of the general revenues of the country.

(2) The expenditure on the construction of the state lines was met from the *general revenues* of the Government and also by floating *public loans*.

(3) Other railways have been started by *private capital* and private companies, both of European and Indian domicile, over whose transactions the Government exercises no financial control. All these concerns are however assisted by the Government in one way or another.

In 1907 half of the profits derived from the coinage of rupees was devoted to the construction and improvement of railways.

The expenditure on irrigation works is defrayed (a) from *current revenues*, (b) from *Famine Insurance Fund* and also (c) from the proceeds of *public loans*.

Question 6.—What are the ordinary limitations on 'Large scale Production' in agriculture? Discuss these limitations with special reference to large-scale agriculture in Bengal.

Answer.—See Ans. to Q. 4, 1917.

Question 7.—Enumerate the various measures which are taken in relieving the affected population (a) in the early stages of a famine, (b) in the midst of a famine, and (c) after a famine is over. Explain the necessity of each measure at each stage.

Answer.—See Ans. to Q. 7, 1919.

Question 8.—Explain clearly what are 'countervailing duties' on Sugar and countervailing Excise duties on cotton goods. State the circumstances under which they were imposed and consider whether they are justifiable.

Answer.—

Countervailing Duties on Sugar.—From 1890 the imports of sugar from Austria and Germany into India began to

increase. The exportation of beet-sugar from these countries was specially encouraged by a system of bounties. In 1897 the United States of America passed an Act imposing countervailing duties on bounty-fed sugar. As a consequence, the Austrian and German sugar was forced to find its market in India, and the imports of beet-sugar from these countries increased enormously from this year.

On account of this unfair competition with the Indian article, in India the area under sugar-cane cultivation was being reduced, and sugar refineries were being closed down. To save the Indian industry from complete ruin the Government of India passed an Act in 1899 by which power was taken to impose an additional duty on sugar imported into India equal to the act amount of bounty or grant given to such sugar by the exporting country. The duty of 1899 having not proved sufficiently effective, additional duties were imposed in 1902-1903.

The aim of the Indian Government was not to give any special protection to the Indian sugar industry. The object of this measure of countervailing duties was to remove ('counter-vail') the unfair advantage which sugar manufacturers in other countries had on account of the bounty system, and thus to fulfil the conditions of free trade and fair competition between foreign manufacturers and Indian manufacturers of sugar.

Excise Duties on cotton goods—See Ans. to Q. 10, 1909.

Though it was imposed at the bidding of Lancashire, the *Cotton Excise Duty* (imposed on Indian mill-made cotton manufactures) was justified by the Indian Government on the ground that it neutralised ('countervailed') the protection which the import duty on cotton goods might have given to the Indian cotton industry. This burden of duty (or tax) on the infant cotton industry of India has been strongly condemned by economists of all shades of opinion.

The cotton industry has arrived at a maturer stage at present. Moreover, while the excise duty on the Indian cotton industry remains where it was long before, the import duty on imported foreign cotton goods has been largely increased. Further the Cotton Excise Duty on Indian manufactures brings considerable revenue to the Indian exchequer. Hence, though the Cotton Excise Duty, in view of its past history and associations,

should be unreservedly condemned, its immediate abolition may not be economically justified, specially so long as the tax on the poor man's salt is retained.

Question 9.—*Discuss the relative economic conditions of the population in Bengal inhabiting, (a) jute-growing districts, (b) rice-growing districts, (c) mill-towns, i.e. towns in which jute, paper, etc., are manufactured.*

Answer.—(a) Jute is a monopoly of Bengal. It has a world-wide demand and commands, in normal times, a price higher than that of rice. These facts account for the gradual expansion in Bengal of the area under jute cultivation.

The producers of jute do not reap the full benefit of the high prices. They are in most cases pledged to sell their produce at a fixed price to the middlemen. It is these middlemen who pocket the lion's share of the profits. In spite of this limitation, the production of jute has enriched the population of Bengal who are connected with it.

Jute-growing districts are generally unhealthy. In order to be ready for use, the jute fibre has to be stripped off, steeped in water and washed. This process lasting for months pollutes and contaminates the water and makes it unfit for drinking or cooking purposes. Whenever used, it is sure to affect adversely the health of the population.

(b) The cultivation of rice is less remunerative than that of jute though its returns are more stable and not liable to violent fluctuations. The bulk of jute produced in Bengal is exported abroad; hence if the foreign demand slackens for some reason or the other, the jute industry is faced with a dull season and crisis.

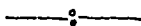
The cultivation of rice is not attended with any such risk, because rice has always a very big home-market to fall back upon. The price of rice rose during and after the war. Though it entailed hardship on the middle class, it added to the income of the cultivator class. The insanitary and unhealthy condition of Bengal villages is causing the physical deterioration of the agriculturists. Yet they are better off than the townspeople in one respect, their sphere of activity lies in the very heart of nature. They live far away from the crowded cities full of smoke and dust, traps and temptations.

(c) The population living in the vicinity of factories certainly earn higher salaries and wages. Various avenues of employment are open to them and there is a competition among capitalists to engage their service. But these very things often turn against them. When a business fails or a factory closes down, thousands of labourers are faced with unemployment and it becomes next to impossible for them to secure any job. Their condition becomes equally pathetic when the capitalists declare a successful lock-out against them. Further, these labourers have to work longer hours amidst unhealthy surroundings. They are compelled to stay in congested and unhealthy slums unprotected by moral influences of family or home and fully exposed to the vile and degrading temptations of the city. Living at a distance from the seats of allurements, the villagers as a class lead a simpler and purer life.

See also answer to question 10, 1921.

Question 10—*State the principal reasons which induced Lord Cornwallis to introduce the Permanent Settlement into Bengal. Justify or controvert those reasons under present circumstances.*

Answer.—See answer to question 1, 1918 and question 9, 1919.



1916.

Question 1.—*What was the central problem that was considered by the Indian Currency Committee of 1893? What bearing has the quantity theory on the solution of this problem?*

Answer.—See answer to question 1, 1912. P. 24.

The Quantity Theory in its simple form states that if there is an increase in the supply of money, other things remaining the same, its purchasing power will fall proportionately, and vice versa.

When the European countries demonetised silver in the seventies of the last century, the white metal thus released began

to flow steadily into India. As in those days mints were open to the free coinage of silver, a heavy coinage of rupees used to follow the influx of silver. *The rupee began to depreciate in value as its supply increased.*

To remedy this state of things an Act was passed in 1893 closing the Indian mints to the free coinage of silver. Thus the value of the rupee was sought to be artificially raised by limiting its supply. The framers of this legislation based their anticipation on the action of the quantity theory and their forecast proved correct in the light of the subsequent experience.

Question 2.—*Consider whether (a) Agriculture, (b) Large-scale Industries, or (c) Small-scale Cottage Industries are most suitable for India, having special regard to her social and industrial condition.*

Answer :—

(a) Agriculture — *Agriculture is the biggest industry of India. It absorbs about 72 per cent. of the total population of this country.* The hot climate induces the labourers to prefer work in the open fields to indoor activities, and the fertile plains of India always call for the activities of the people. There is another reason why the population of India is rooted to the soil. The deep-seated conservatism, adherence to old forms and customs, lack of energy and initiative which mark the average Indian make himself afraid of new ventures and compel him to confine his activity to the beaten path. Indian villagers again have very little desire to rise in social scale or amass money and power. They have a few wants ; when these are satisfied they feel contented and do not wish for more. Their ideal is limited, so their exertions are equally limited.

The bulk of the Indian population are, by nature, of a quiet, virtuous and peace-loving disposition. They like to shun, if they can afford, the din and clamour, the evils and temptations of the city-life and pass their time in the calm atmosphere of the villages.

All these factors have tended to make agriculture the chief industry of India, but *it is a mistake to suppose that India has ever been a purely agricultural country. It had, in the past, a splendid combination of agriculture and manufacture, and its*

wealth was the result of the profitable exchange between the country and the town.

Almost all the old indigenous industries were small and were carried on in the homes of the autonomous workers. The spinner, the weaver, the potter, the blacksmith, the oilpresser, the leather-worker, the shoe-maker were all producers of this type. The villages were in those days self-sufficient. Producers worked in their homes and turned out goods which commanded ready sale in the local or the neighbouring market.

(b) **Small-scale and Cottage industries.**—*Cottage industries were thus peculiarly suited to the genius of the Indian people. India is still largely a country of small-scale industries, out of a total of 35 million industrial workers, only 2½ millions are engaged in large-scale factories, mines, and railways and the rest are still employed in these small-scale industries. And the Indian Industrial Commission has noted the remarkable vitality of many of these small scale industries. Though they are being gradually displaced at present to a certain extent by the products of mills and factories, the day for the small industry is not entirely gone. On the contrary certain peculiar conditions of modern times themselves are favourable to the continuance and growth of small-scale and cottage industries :* (i) *Popular taste requires certain delicate handmade goods* The cottage workers may specialise in these lines. (ii) *Small industries are in a position now-a-days to benefit by mechanical and other improvements.* The artisans of the Western countries work in their own homes with the aid of cheap motive power and machine tools. Thereby they escape staying in overcrowded and unhealthy cities and all other evils associated with the factory system. The Indian craftsmen can adopt these methods. (iii) *The progress of co-operation in various forms (viz. co-operative credit, co-operative production and purchase and sale societies, etc.) has helped greatly the small-industries in European countries in recent times and it is expected to be eminently helpful also in India. In any case, it is undoubted that the home industries will be able to hold their own if they are equipped with improved appliances, cheap capital and marketing facilities.*

Small-scale industries, specially those carried on in villages as cottage industries (and also agriculture) are carried on by

the workers in their village homes under the wholesome moral influences of home life and under the eyes and social supervision of the village elders (and away from the evil influences and temptations, the drink and debauchery of factory life in towns which degrade physically and morally so often the workers in large-scale factories in towns). Mahatma Gandhi and his followers on these moral and social grounds think that agriculture and cottage industries (specially Khaddar) are more suitable for India than the large-scale factory industries, etc.; and there is a great deal of truth in what they state.

(b) *Large-scale Industries.*—But the modern age is an era of big industries and large-scale production. The steady displacement of hand industries by machinery driven by power and the substitution of factories in the place of domestic labour of autonomous workers, is the order of the day. *If India wants to achieve an adequate industrial development it must start mills and factories with large amounts of capital. Concentration of capital and production with the help of machinery are highly productive and are calculated to yield very high returns.* It is these advantages which have led to the rapid development of big undertakings in the West and the example is being followed in India. *The tendency to large-scale production is inevitable in modern India, in industries where the economies of large-scale production are substantial as in the transport industries (shipping, railways, etc.) and in the mining industries, and in certain manufacturing industries (iron and steel manufacture, also to a certain extent jute and cotton manufactures, woollen manufactures, tanneries and leather manufactures) producing commodities which are more or less necessities and are in wide demand—foreign competition and growing needs of the Indian people require it.* And there is no reason why India will not succeed in starting the most up-to-date factories and working them profitably. *India has a vast amount of natural resources which can be used as raw materials. India has a large labour force which can be harnessed in factory work. India has capital—indigenous as well as borrowed—to help the labourers during the process of production.* If Indians can acquire skill and organising capacity, there is every hope of their standing shoulder to shoulder with the advanced industrial nations of the West.

At the same time profiting by the experiences of Europe and America, we should try to avoid as far as practicable by legislation, by organised action on the part of the labourers themselves through their trade unions and also by the pressure of enlightened public opinion (i) the moral and social evils associated with large-scale industries and modern factory life in towns (ii) and also the economic exploitation of labourers through unduly low wages and excessive hours of work and unsatisfactory conditions of employment.

Economic reconstruction is to be carried out in various directions and in consonance with the spirit of the times. No wholesale repetition or revival of a by-gone age is either practicable or desirable. Agriculture and cottage industries have certainly their places, but they cannot be panacea for all the economic ills of this country. Salvation must be sought in a *more efficient organisation all round, in agriculture as well as in industry (large-scale as well as small-scale) and trade.*

Question 3.—*Define the Khas and the Zamindari systems of land settlement.*

Lord Cornwallis discarded the Khas System in favour of the Zamindari system; while the present-day administrators prefer the former to the latter. Give reasons which have led to this change of policy.

Answer.—See Ans. to Q. 1, 1918.

Question 4.—*Enumerate the principal causes of the recent rise of prices in India. Which of these causes do you consider to be peculiar to India?*

It is said that the rise of prices has been generally beneficial to the country. Examine this statement.

Answer.—See Ans. to Q. 6, 1913, Q. 8, 1919 and Q. 4, 1921.

Question 5.—*Explain the general principles of limited and unlimited liability of partners in business. Consider why the unlimited liability is appropriate to the Co-operative Credit Societies.*

Answer.—(a) *Partnership business and unlimited liability of each partner.*

In a partnership the association is generally among a few persons well-known to each other who take an active part in the business which they manage. The partners, being direct and active agents, are jointly and severally responsible not only for the management but also for the debts of the business; that is, if the business fails, the liabilities may amount to any sum and the creditor is entitled to realise his full dues from any one of the many partners. In other words, *the liability of each partner is unlimited*, for it depends on the extent of the loss, and so long as one single partner is solvent and the whole amount of the liabilities can be recovered from him, the creditor is safe.

(b) *The joint-stock company and limited liability of each share-holder.*

When corporations (joint-stock companies) are so big that they consist of a large number of persons (share-holders) unknown to one another and separated by distance, diversity of interests and occupations and other causes, it is obviously unfair to hold these scattered individual share-holders who do not take part in the management, responsible for the liabilities of the concern, only because they have contributed individually a small sum of money (share-capital) to the undertaking. For such associations the law provides that each member (share-holder) should be held liable only up to the amount of his individual contribution of capital (*share*) to the joint-stock company and no more. Hence the liability of the shareholders is *limited*.

(c) *The village co-operative credit society and unlimited liability of each member.*

The village Co-operative Credit Society—which is an association chiefly of poor persons who jointly pledge their credit in order to raise sufficient funds for the purpose of lending out among themselves at a cheaper rate of interest than each could obtain by pledging his individual credit—should in the fitness of things be a partnership with unlimited liability. *Poor men in the village can increase the security which they offer to the creditor only by the unlimited liability principle*; and can thus borrow at a lower rate of interest.

While, for members of large urban societies unlimited liability may present certain dangers. There is, in fact, little

risk of members incurring great loss by reason of unlimited liability in a rural credit society. The reasons are not far to seek. The area of a rural credit society is limited to at most a few villages; the members are acquainted with the general character and circumstances of their fellow-members; the collective knowledge possessed by the committee of management and their collective surveillance are not likely to prove at fault; so, *in the rural Co-operative Credit Society unlimited liability of members is possible and desirable.*

Indeed it is not too much to say that it *is this principle of unlimited liability which has given birth to all the moral and educative effects of co-operative credit.* Since the liability is unlimited, it is the interest of the committee to admit, as members, men whose character is beyond reproach. Instances are not rare to show how habitual drunkards have become sober, spendthrifts have become economical and gamblers have given up their evil habits—only to be eligible for membership in the rural society.

Unlimited liability is thus in complete harmony with the purpose and ideal of the co-operative movement and should be the guiding principle of organisation of all rural credit societies.

Question 6.—*Enumerate the chief causes of agricultural indebtedness in this country. Give a brief account of the measures taken by Government to provide a remedy for each of these causes.*

Answer.—See Ans. to Q. 2, 1918. p. 69.

Question 7.—*Define the following terms : (a) Net Assets, (b) Net Produce, (c) Quit Rents, (d) Alienation, (e) Rights of Pre-emption, and (f) Record of Rights.*

Indicate the administrative usefulness of the maintenance of a correct and up-to-date record of rights.

Answer :—

(a) Net Assets.—See: Ans. to Q. 3, (c) 1918.

(b) Net produce.— Ditto.

(c) Quit Rents.—A certain class of tenants has to pay only rent. They are exempt from all other dues. The rent which

they pay is quit rent, so called because once they have paid their rent, they are declared free from all other charges.

(d) **Alienation.**—See Ans. to Q. 3 (d), 1918.

(e) **Rights of Pre-emption**—are rights of purchasing before others. In a village community, if any of the proprietors wishes to sell his rights, or is obliged to part with them in order to satisfy demands upon him, the other members of the same community have a preferential right to purchase them at the same price as could be obtained from outsiders.

(f) **Record of Rights, and its administrative usefulness.**—See Ans. to Q. 6 (a) and (b), 1917.

Question 8.—*Explain the necessity and importance of each of the main grounds on which increase of land revenue at the time of re-settlement is generally permitted. Indicate the various steps in the process of land revenue settlement.*

Answer.—See Ans. to Q. 3, 1919.

Question 9.—*Elucidate the general principles on which famine relief is administered in India.*

Answer.—See Ans. to Q. 7, 1919.

1917.

Question 1.—*What is the Paper Currency Reserve? In what form is it kept, and what is the object of keeping it?*

Explain the usefulness of each of its component parts.

Why is it considered advisable to keep a portion of the Reserve in London?

Answer—Object of the Paper Currency Reserve.—By the Act of 1861 the Paper Currency Reserve was created and the object of the Paper Currency Reserve is to secure the conver-

tibility of the currency notes into metallic money. The sovereigns and silver rupees contained in the Reserve are kept constantly in readiness for paying the notes either in gold or silver whenever presented for encashment.

The law requires that the Reserve shall be held against the Notes equal to their full value. But by the Act of 1925, the Reserve may be held up to the amount of Rs. 100 crores in the shape of investments or securities either in England or in India. *These investments (up to 100 crores of rupees)* must be of a kind which bear interest, and which can be easily sold in case of necessity to procure gold and silver for the Reserve without delay; and *the remainder of the Paper Currency Reserve must be held in gold and silver coin or bullion.*

The composition of the Indian Paper Currency Reserve at the end of June, 1921, was as follows :—

				In lacs of rupees.
<i>Coin and Bullion—</i>				
Silver coin	...	...	...	66,86
Gold coin and bullion	...	...	...	24,35
Silver bullion under coinage	...	...	...	4,20
<i>Securities at purchase prices—</i>				
Held in India	...	...	...	67,99
Held in England	...	...	...	8,35
				<hr/>
				171,75

As regards the portion of the paper currency circulation which is represented by the metallic part of the reserve there is some saving. Coins in circulation suffer from wear and are reduced in weight. After a number of years they have to be withdrawn, melted and re-coined. In doing this, there is obviously a loss. By keeping metal in reserve and putting instead paper money to an equal value in circulation the wear and tear of the coins is avoided. This means a considerable amount of saving.

The portion of the Reserve which is held in easily saleable securities earns interest and is a source of income to the government.

A portion of the Indian Paper Currency Reserve is kept in England.—(a) In the event of the demand for Council Bills being insufficient to supply the Secretary of State's requirements he can transfer a portion of the Reserve in England to his own account, a corresponding transfer being simultaneously made in India in the other direction. (b) The portion of the Indian Paper Currency Reserve in England is further utilised for holding gold by means of which the Secretary of State can support exchange in times of depression and maintain at par the gold value of the rupee. The view that the Paper Currency Reserve should be held as a second line of defence for the support of exchange, however, seems hardly sound as that is the proper function of the Gold Standard Reserve. (c) The portion of the Indian Paper Currency Reserve in England holds a certain amount of gold which is utilised for purchasing silver required for coinage in India.

Question 2.—*India is called a debtor country on account of her many foreign obligations. What is the nature of these obligations? Explain the process by which they are discharged.*

Answer.—India incurs a good deal of expenditure in foreign countries.

(1) India is a creditor of foreign countries by what India exports, and India is a debtor of foreign countries by what India imports.

(2) Many of her industries are worked with borrowed capital for which interest is to be paid to foreign countries.

(3) India has to pay foreign countries for the expenses of Indian students and tourists in foreign countries.

(4) Also India has to pay large sums every year to Britain on account of ship freights, bankers' commissions, etc.

(5) In addition to these obligations India remits each year to the Secretary of State what are called the "*Home Charges*." The Home Charges are composed of the following items:—

(i) Interest and management of debt, and payment of interest and annuities on account of railways and irrigation works.

(ii) Payments in connection with Civil Departments in India.

- (iii) Indian High Commissioner's Establishment in England.
- (iv) Army and marine effective charges.
- (v) Stores purchased for India in England
- (vi) Furlough Allowances } of European civil and military
Pensions and Gratuities } officers, who have served in India.

How are the Home Charges paid?

In order that India can meet these obligations successfully it is essential that she should have a favourable balance of trade *i. e.*, the exports from India should be greater than the imports into India. If the exports of India exceed the imports, she is entitled to receive some payments for the excess exports. This fund, instead of being transferred to India, is placed at the disposal of the Secretary of State who makes many necessary disbursements on behalf of India. The Secretary of State announces the sale of Council Bills on certain dates. The European importers of Indian goods buy those bills (called Council Bills) in England from the Secretary of State and send them to India where these bills are cashed by the Indian Government; and thus the European importers through these Council Bills get funds with which they pay to India for the jute, cotton, wheat, etc., which they import from India. *Thus the Secretary of State receives money in London by the sale of these Council Bills for meeting the expenses of the Home Charges, etc.; and a good demand for Council Bills is created by India's normal excess of exports over imports arising through the operations of trade and commerce.*

Question 3.—*Discuss critically the question whether famines in India are famines of food or famines of money.*

Answer.—Famines are recurring calamities in India. The signal of an approaching famine is a failure or excess of rains followed by a failure of crops and a shortage of food-supply. Defective means of communication aggravate the horrors of a famine. Railways and good roads facilitate the transport of food-stuff from parts of the country where food is abundant to those which suffer from a deficit.

It has been said that *Indian famines are not so much famines of food as famines of money*, of the means with which to purchase food. *This is to a large extent true ; (i) since if the people of India had enough purchasing power, they would buy food from foreign*

countries and would draw upon the food resources of the outside world as England does. The main reason for the heavy mortality and the intense suffering which accompany a famine is to be found in the fact that the majority of the Indian people have no money to buy food in famine years (ii) The Famine Commissioners of 1880 maintained that there was enough food in the country (India) to feed the entire population, even in the worst years. The Famine Commissioners of 1898 agreed with this view. Indian famines thus are not crop famines but money famines. Even in famine years it is not the want of a supply of food in the country which the Indian people suffer from, but the lack of money resources with which to purchase food. When there is a famine in an Indian province because the crops have failed, the day labourers and the poor cultivators have no employment in the fields and have no money to buy the food which is brought to the famine-stricken province by railways from other Indian provinces where the crops are good.

Question 4.—State the disadvantages of large-scale agriculture generally. Examine to what extent they hold good in India. How far is co-operative agriculture possible in Bengal ?

Answer.—Large-scale production has its own advantages. Manufactures, when carried on a large scale, comes under the operation of the law of Increasing Returns. The working expenses fall relatively and economies are effected in various directions, such as purchasing in larger quantities, better division of labour, employment of the best and most up-to-date machinery, etc. In a similar way, large-scale farming is not also without certain benefits, though the latter are not so appreciable and permanent in agriculture as in manufacture.

The difficulties of large-scale agriculture are mainly two in number :—

(1) *The law of Diminishing Returns comes into application soon and sharply in case of agriculture.* As more and more units of capital and labour are applied to land, after a time there are diminishing returns.

(2) *In large scale manufacture where all the stages of production are confined within the walls of one building, the economies of superintendence and management can be easily effected. Agriculture on a large scale where miles and miles.*

of cultivation are involved, affords no such facilities for economies of working.

Agriculture in India.—In addition to the general disadvantages (1) and (2) of large-scale agriculture already noted, large-scale agriculture in India suffers from additional disadvantages.

(3) *Fragmentation of land.*—In India, the land is split up into millions of small holdings. Agriculture is consequently practised on a small scale. *This fragmentation of holdings, which is a result of the law of inheritance, stands greatly in the way of large-scale agriculture in India.* (4) The average peasant in India has little capital and credit, and is too ignorant to use improved implements and to follow the scientific method of modern large scale agriculture. (5) The average Indian peasant has little of the education and knowledge of markets and capacity for organisation required for successful large-scale agriculture. In certain parts of India, the soil is of such a nature that large-scale farming is not expected to yield much benefit.

There is, however, much room for improvement even under present circumstances; and it is held by responsible authorities that the introduction of improvements into the existing methods of cultivation will increase the yield of fields by a considerable amount.

Co-operation.—Co-operation among the cultivators can go a great way towards solving some of the problems and removing many of the difficulties of agriculture in Bengal.

(1) *The scattered holdings may be consolidated and jointly cultivated,* as is being already done in the Punjab.

(2) They may co-operate in constructing *irrigation works* for supplying water to their fields or they may set apart common pasture land for the grazing of cattle.

(3) By setting up Co-operative Sale and Purchase Societies they may buy seed, implements and other requisites and sell their product at a considerable profit and eliminate middlemen.

(4) The Co-operative Credit Societies, if properly worked, are likely to be of immense value in solving the problem of rural credit and agricultural indebtedness. Thus co-operation appears to be, if not a panacea for, a rich specific against many of the agricultural ills of India.

Question 5.—*The following are among the causes of high prices in India :—(a) Development of communications and lowering of the cost of transport : (b) Growth of banking facilities and development of credit.*

How, in your opinion, do these causes operate to raise prices ?

Answer.—The question of prices in India, as elsewhere, is mainly a question of the operation of the law of demand and supply. When the supply of a commodity exceeds the demand for it the sellers have to be content with a smaller price the purchaser may be willing to give. The reverse will happen if the demand exceeds the supply. The degree of the rise or fall is determined by the keenness of the demand and the ability of the supply to wait for a turn of the market. Much depends upon the conditions under which the supply is produced, the time required to increase it, and so forth.

(a) The defective character of communications, absence of keen competition and predominance of custom in the economic relations of the people long governed the course of Indian prices, but the development of the means of communications, *i.e.*, railways, waterways and telegraphs, etc., and lowering of the cost of transport have brought the various parts of the country into closer contact with one another and India itself into intimate touch with the world. Indian prices have become to a large extent susceptible to outside influences, *viz.* prices in the markets of the world. Thus, though the improvement and cheapening of the means of communication have tended to an equalisation of prices in different parts of India, they have effected a general rise of prices, specially of food-grains and raw materials. Foreigners by competing with the local people in the purchase of Indian goods have pushed their prices high. Expansion of demand is being followed by an increase of supply, but as food-stuffs and raw materials, the staple produce of India, are brought forth in decreasing returns, the increase of supply can be accomplished only at an increasing cost. The introduction of swift and cheap means of transport has linked the Indian market with the world and has made Indian prices approximate to the high level of prices prevailing in the world markets.

(b) Improvement in general monetary and banking facilities and an increase in credit have made money more cheap and thus

raised prices in India. Prices are expressions of relations between money and goods. Growth of banking and credit has placed at the disposal of the public an increasing number of media of circulation. If the increase in the quantity of money is accompanied by a corresponding increase in the volume of goods exchanged, the price relation remains unaltered, but *the increase of goods has not been able to keep pace with the increase in the quantity of money and credit in India.* Money has become *relatively abundant*, consequently its value has fallen, and *the prices of commodities have risen.* In other words, there has been a general rise in the price-level of India.

Question 6.—*Define the following, bringing out clearly the leading ideas in each :—*

- (a) *Cadastral Survey.*
- (b) *Records of Rights.*
- (c) *Settlement of Land Revenue.*
- (d) *Redemption of Land Revenue.*
- (e) *Resumption of Land Grants.*

What are the main features of the Permanent Settlement ?

Answer.—**Cadastral Survey.**—The general features of the Land Revenue administration, whether *zamindari* or *ryotwari*, may be noted under three heads : (1) *the preparation of the cadastral record* ; (2) *the assessment of the revenue*, and (3) *the collection of the revenue.*

An essential preliminary to the assessment of land is the preparation of a cadastral map. In Bengal, where the revenue was permanently assessed in 1793, the assessment rests on information obtained without the aid of a survey ; but this defect has given rise to inconvenience, both fiscal and administrative, and it was found necessary in 1891 to introduce a cadastral survey in order to regulate the relations of landlord and tenant. In other provinces, the existing assessments are based almost without exception on a field-to-field survey. All cadastral survey work is now done by the Provincial Land Records and Settlement Department. (S. C. Roy)

(b) **Record of Rights.**—The cadastral map having been completed, the record of holdings is drawn up. This is

primarily a fiscal record, the object of which is to show from whom the Government land revenue assessment of each holding is to be realised and the amount in each case,—additional entries are often made to show all other details connected with land. Arrangements are now in force in most provinces by which the cadastral records are revised either annually or at short intervals in such a way as to maintain its accuracy.

(c) **Settlement of Land Revenue.**—The preparation of the Cadastral Record and the assessment of the revenue are known collectively in most provinces as the '*Settlement of the land revenue*', and the officer who carries them out is known as the "Settlement Officer." The settlement operations cover the survey and valuation of land, the duties of the assessing staff thus entail a minute local inspection from village to village through large tracts of country.

According to one classification settlement is of three kinds, as the officers have to deal either with landlord estates, with village estates (or *mahals*), or with separate holdings. But there is another classification which is more conveniently adopted. Certain Settlements are 'Permanent,' *i.e.*, made once for all, at rates never to be increased or diminished. Others are made so that the assessment should be revised after a certain period of years. They are 'Temporary Settlements.'

(d) **Redemption of Land Revenue.**—Various provisions are made in the different provinces for exempting from assessment, either permanently or for a term of years, increases of income due to improvements such as, wells, tanks and embankments made by private individuals. Favourable terms are granted to cultivators who take up and clear waste land. Sudden enhancement of land revenue demand is avoided and relief from over-assessment of holdings which have suffered deterioration since they were assessed is arranged.

(e) **Resumption of Land Grants.**—When the whole question of rights to hold Land revenue free was gone into, the invalidity of a large number of claims became evident. These claims were disallowed and the land was 'resumed,' *i.e.*, assessed to Land Revenue. The question of the ownership of the land, if that was in dispute, was referred to the Law Courts.

The main features of the Permanent Settlement.—During the early years of the British rule, the revenue settlement was made for very short periods, often for one year only. *The fluctuation and uncertainty of the land revenue caused much inconvenience to the Government and great hardship to the people. To remedy this state of affairs, Lord Cornwallis introduced the Permanent Settlement in Bengal in 1793. By it, the land revenue was fixed by the Government in perpetuity.* If the revenue was not paid within a certain date, the estate could be put up to auction and the revenue realised by the operation of the Sunset Law. *In promulgating the measure and establishing the Permanent Settlement, the Government had two objects in view: (1) the security of the Government land revenue; and (2) the improvement of the land.* It was expected that the land-owner would be generous towards his tenants and would be induced to improve his estate because he had a fixed stake in it.

Question 7.—*Describe the general principle underlying the system of Patni tenures in Bengal; and examine their social and economic effects.*

Answer.—As a result of the Permanent Settlement the Government abdicated its position as exclusive possessor of the soil and contented itself with a permanent rent charge on the land. The Government thus evaded the labour and risks attendant upon detailed management. *The Zemindars of Bengal Proper were not slow to follow this example of the Government and began to dispose of their property in a similar manner. Thus permanent tenures, known as Patni tenures were created by the Zemindars in large numbers and extensive tracts were leased out by them on long terms to persons called Patnidars.* The practice of granting such tenures has steadily continued, until at the present day a large proportion of the whole permanently-settled area has passed from the direct possession of the Zemindars.

When a landlord finds that he is not fond of land management or he has not the means to undertake the work, he creates a *patni*; this in effect consists in giving a *permanent* managing lease. The contract specifies a fixed sum and the *lessee* or *patndar* binds himself to pay that amount, he of course being allowed all rights of management, breaking up the waste,

enhancing rents, etc. In time, the *patnidar* will probably have a large profit and then in his turn he may divest himself of the toil of direct management. (*Baden-Powell*). In some parts of the country the process of subinfeudation has advanced much further. The *patnidar* has given his lands in permanent lease to *dar-patnidars* who in their turn have carved out their interest to *sepatnidars*. In these alienations, the proprietors, as a rule, make excellent terms for themselves. Ordinarily a *patni* is granted on payment of a premium which represents the capitalised value of many years' increased rents. The origin and incidents of this class of tenures are fully set forth in Regulation III of 1819.

The social and economic effects.—(1) By the adoption of the *Patni* system, the *posterity of the contracting Zemindars suffers*, because if the premium were not exacted, a higher rental could be permanently obtained from land. This consideration has not, however, much practical weight with the landholders.

(2) This immense amount of sub-infeudation has created a host of middlemen (between the Zemindars and the ryots) who absorb a large portion of the income from the land and the system naturally presses hard upon the peasantry and checks agricultural progress. The process of sub-infeudation has also given rise to infinite litigation which is to be deplored both from social and economic points of view.

Question 8.—*Enumerate the actual and possible benefits of Co-operative Credit Societies.*

Answer—Credit is an absolute necessity in all agricultural countries and this is especially the case in India where about one-third of the cultivating class are deeply and inextricably steeped in indebtedness. In order to supply the agriculturist with easy and cheap credit, at the same time eliminating the danger of reckless borrowing, the Co-operative Credit Societies Act was passed in 1904.

The main business of a Society is to raise funds by deposits from members and by loans from non-members, Government and other bodies, and to distribute money thus obtained by way of loans to its members. *The object of the Co-operative Credit Society is to eliminate money-lenders and middlemen and encourage*

thrift, self-help and co-operation among agriculturists, artisans and persons of limited means. Though the movement in India is still in its infancy, the latest figures prove that co-operation has taken a firm root in India. The benefits of the movement have been intelligently grasped and there is a brisk demand for the creation of new societies.

Benefits.—(1) *Economic benefits*—(a) The agriculturists have been released from the grip of the village money-lenders. *They are now saving more than 30 lacs of rupees in the form of reduction of interest* (as the agriculturists are able to borrow at a lower rate of interest from the Co-operative Societies than from the village money-lenders) and there is reason to believe that in a few years the sum should multiply itself several times over. (b) “Besides, with the progress of co-operation and with credit democratised, *money that had lain in hoards has been produced and placed in deposit*, capital that would otherwise have been inaccessible has come into the hands of the agriculturist, and *old debts have been paid and old mortgages have been redeemed*. Co-operation has placed within the reach of the cultivators *cheap manures and implements*, it has tended to help the improvement in the breed of cattle, and it has provided the means by which useful information can be disseminated.”

(P. Banerjea).

(2) *Intellectual and moral and social benefits.*—The intellectual and moral benefits have also been immense. The need for signing promissory notes and of keeping accounts has led to a demand for education and schools. The criterion for admission into these societies being a man's character, they have influenced the conduct and behaviour of the members. *Thrift has been promoted.* Liability for each other's debts has acted as a powerful check on thoughtless expenditure. *Punctuality, straightforwardness, honesty, self-restraint and self-respect have been encouraged.* In some areas, *litigation has decreased* to a remarkable extent. In others, funds have been raised to start schools, to provide scholarships, to supply drinking water and to clean roads. The managing bodies have frequently been entrusted with the arbitration of disputes and with other duties which belong to *Panchayats*, and there is some reason to think that the continuity of aim and solidarity of feeling inherent in

the movement may lead to a revival of the corporate village-life which has been so much weakened by the disintegrating influence of modern times.'

Question 9.—Write a short critical note on the economic effects of the employment of foreign capital in India.

Answer.—Advantages which India has derived from the use of foreign capital.

(1) Foreign capital has enabled Indians to develop the vast natural resources of the country quickly. It has developed many industries in India (jute manufacture, etc.), has built up India's railways and wide and extensive trade and opened new and distant markets.

(2) The difficulties and losses of pioneer industrialism have been experienced and borne by foreign capital.

(3) It has placed at the disposal of India money at a cheap rate of interest.

(4) The railways and other means of communication built chiefly with the aid of foreign capital have made possible the modern industrial development of India and have unified the diverse peoples and races of India and created in them a spirit of nationalism.

Disadvantages.—(1) Foreign capital has helped the peaceful penetration of foreign influence ending in the political domination by the alien capitalists.

(2) The foreign capital imported into India is utilised in Indian industries not under Indian management but mostly under foreign management. The Indians have to pay annually not only interest on foreign capital but the huge profits to the foreign management. With foreign capital has come foreign control and foreign management of many Indian industries—the foreign management is an added disadvantage involving the export of huge profits from India.

(3) Exhaustion of mines.—Foreign capital has acquired mining concessions with very little royalty, the destruction of natural resources (e.g., mineral resources) of India is going on without any substantial compensatory benefit in return.

(4) Signs of a gradual awakening of Indian labour are being daily witnessed. It is difficult for foreign capitalists to appreciate the view-points of Indian workers.

(5) Banks under European management consistently refuse to help and encourage Indian industrialists and unduly favour foreign capital and foreign management.

(6) The controlling boards of Indian industries worked with foreign capital and under foreign management are in most cases situated in London. Indian interests always suffer under these conditions.

A careful and dispassionate consideration of the above arguments leads to the conclusion that in the present stage of India's industrial progress, *foreign capital is welcome for Indian industries under proper safeguards, but foreign management is not.* India should borrow and pay interest on *foreign capital*, but should not suffer *foreign capitalists* to control her resources and treat her children as so many hewers of wood and drawers of water.

1918.

Question 1.—*Contrast the merits and demerits of the Khas and Zamindari systems of land revenue settlement in India. Lord Cornwallis discarded the Khas system in favour of the Zamindari system ; while the present-day administrators prefer the former to the latter. Give reasons which have led to this change of views.*

Answer.—Broadly speaking, the Government of India has adopted two systems of land settlement.

(1) Under the *Khas* system, the State deals directly with the tenants, and is itself the landowner. The temporary settlement with its subdivision into *Mahalkwari* and *Ryotwari* belongs to this system.

(2) The *Zamindari* system (and a large part of the area under Zamindari settlement is permanently settled, and a part is temporarily settled) generally vests proprietary rights in the Zamindars who pay a fixed revenue to the Government and deal with the tenants.

Merits of the Zamindari system.—As merits of the Zamindari system it may be pointed out that (i) *it produces an educated and influential class of landlords, a strong and intelligent middle class and a resourceful peasantry with great sustaining power against drought and failure of crops.*

(ii) The rents are light and the cultivators prosperous.

(iii) Personal relations are apt to grow easily between Zamindars and their tenants, while there is no such relation in those cases where the Government which is merely a machine stands in the position of a landlord.

Defects of the Zamindari system.—On the other hand it may be argued that :—

(1) The Zamindars who are intermediaries between the Government and the tenant *take the lion's share of the rent and there is an immense loss of revenue to the Government.* The loss of revenue often necessitates the imposition of extra taxation. If the Zamindar's share came to the public treasury, the sum could be utilised for the purposes of education, sanitation, etc.

(2) With the education, and progress of the peasants and labourers, the *social usefulness of a leisured landlord class is fast disappearing.* In many countries, they are considered as mere parasites living upon the honest work of others.

(3) The personal relations between the Zamindars and the tenants are, in a large number of cases, far from cordial. The Zamindars have taken advantage of every loophole of law to demand extra payments from the ryots. *Absenteeism and lack of interest on the part of the landlords* have created a wide gulf of difference between themselves and the tenants.

Defects of the Khas system.—Lord Cornwallis rejects the Khas system and introduces the Permanent Zamindari system.

The Khas system was rejected by Lord Cornwallis because the Government had not at that time the required information about all the holdings of the peasants in the country, the areas, the production, etc., and the Government had not also the staff of the requisite efficiency and honesty for this kind of work. When Lord Cornwallis introduced the Permanent Zamindari settlement, he had two main objects in view: (1) *The security of the Government land revenue, and (2) the improvement of the land and the extension of cultivation.* He hoped that if the land

revenue was fixed the landlord would have the greatest inducement to improve the land, for he alone would enjoy any extra gain due to the improvement in the soil. Further, Lord Cornwallis hoped that this act of generosity on the part of the state would be imitated by the landlord in his dealings with the tenants.

Defects of the Zamindari system at present and present official support of the Khas system.

The expectations of Lord Cornwallis have remained to a large extent unfulfilled. Present-day officials prefer the Khas system to the Zamindari system. The present-day officials are of opinion that the permanent Zamindari system is a complete failure : (i) The Zamindars are unsympathetic and oppressive to the tenants, and (ii) have no zeal for improvement of cultivation.

(iii) The system has proved no remedy against famines. Fixity of tenure does not allow of an elasticity and expansion in revenue collection. (iv) The unearned increment is being appropriated by the landlords. That is why the Zamindari system is gradually losing favour in the official eye. The Khas system is in vogue now and long-term settlement is being gradually extended. Allowance for improvement is granted. Legislation has been made to safeguard the interest of the tenants against unjust interference of landlords.

Question 2—*Enumerate the chief causes of agricultural indebtedness in this country. Give a brief account of the measures taken by Government to provide a remedy for each of these causes.*

Answer.—Agricultural indebtedness is the burning problem of India. The Famine Commissioners of 1880 reported "that about one-third of the land-owning class are deeply and inextricably in debt and that at least an equal portion are in debt, though not beyond the power of recovering themselves." The traditional thriftlessness, the legacy of debt left by the forefathers, the crushing terms of the *Mahajan* and the cultivation of uneconomic holding account for the poverty and indebtedness of the Indian masses.

The causes of agricultural debts mainly arise from—

- (a) the purchase of land on credit
- (b) the division of property due to the law of inheritance and the consequent emergence of uneconomic holdings

- (c) great losses due to season and disease
- (d) a lowering of prices due to foreign competition or prevention of export
- (e) the burden of taxes, previous debt, etc.
- (f) the rapacious action of money-lenders
- (g) the facility of borrowing
- (h) also the uneconomic social habits of the people, their extravagant expenditures in connection with marriages, etc., lead to indebtedness.

Measures adopted by Government to combat these evils—

(1) **Curtailment of Peasant's Right.**—In some provinces of India the Government passed law curtailing the peasant's rights to borrow money on the security of his land. For instance, by the *Punjab Land Alienation Act of 1900*, a peasant in the province cannot sell his land to any but members of certain agricultural classes who are recognised by statute as agriculturists. In *Bundelkhand*, the Government cleared the estates of debts and restored them to the owners, saddled with a new provision limiting the proprietors' right of alienation.

The object of this curtailment of the peasant's right to sell (alienate) his land is to check agricultural indebtedness—if non-agriculturists (like the money-lenders) are prevented by *Land Alienation Acts* from purchasing the agriculturists' land, then the money-lenders will not lend so freely to the agriculturists to their ruin and so the burden of agricultural indebtedness will be checked.

(2) **Cheap credit but with thorough safeguard.**—But capital is the most urgent need of the cultivators. "The complete solution of the problem of agricultural indebtedness" observes Sir Theodore Morrison "appears to lie in some system which will provide the peasant with facilities for borrowing at a low rate of interest, and at the same time devise safeguards against his inveterate tendency to borrow imprudently." With this end in view Government has opened money-lending agencies to supply cheaper money to agriculturists.

(a) Government itself lends money known as **Takavi** regulated by the *Land Improvement Loans Act of 1883* and the *Agriculturists' Loans Act of 1884* at 5 to 6½ p. c. as against the exorbitant rates demanded by the village *Mahajan*. But the

Government advances are made only for specific purposes connected with agriculture, e.g., improvements of the soil, seed, cattle, etc. They also entail certain formalities and also very strict conditions of repayment which make them rather unpopular.

(b) Government is encouraging the formation of co-operative credit societies based on the Raiffeisen plan.

See also Ans. to Q. 8, 1917.

Question 3.—*Define clearly the following :—*

- (a) *Cadastral Survey.*
- (b) *Record of Rights.*
- (c) *Countervailing Excise Duties.*
- (d) *Alienation of Land.*
- (e) *Net Assets.*
- (f) *Enfranchised Inam Tenures.*
- (g) *Takavi Grants.*
- (h) *Remission and¹ Suspension of Revenue.*

Answer :—

- (a) } See Ans. to Q. 6, 1917.
- (b) }

(c) **Countervailing Excise Duties**—imposed on Indian cotton manufactures are intended to remove (i.e., countervail) the protective effects of Indian Import Duties imposed on imported foreign cotton manufactures—the foreign industry is thus put in a position of some sort of equality with the domestic cotton mill industry and free trade is secured. In 1894, the Government of India was forced to impose import duties on cotton goods. In order to deprive the tax of a protective character, a countervailing cotton excise duty of 5 p.c. on all cotton yarns above 20 count produced in Indian mills was also imposed. When the import duty was reduced to $3\frac{1}{2}$ p.c., the excise duty followed suit. In 1917, however, in order to meet heavy war expenditure, the import duty was raised to 7 p.c., while the excise duty remained at $3\frac{1}{2}$ p.c. The import duty has subsequently been raised to 11 p. c., but the excise duty has remained where it was.

(d) **Alienation of Land.**—Besides lands that are not assessed to Land Revenue, there are others on which the payment is either remitted or made payable to some grantee. Such lands are called *lakhiraj* (Arabic *la*=not, and *khiraj*=land tax). In Bombay and Madras such lands are now generally called 'alienated lands'. "It really pointed back to a time when the Government claimed to be (and was to some extent) owner and landlord of all land, as well as of the Land Revenue. When, therefore, the Government gave up its right to take anything from the land, in favour of a grantee, it was said to *alienate* the land, as it has no further concern with the soil or its revenue." (*Baden Powell*).

(e) **Net assets.**—The meaning of the term "net produce" or "net assets" as employed for the purposes of assessment, varies in different parts of India. *In Northern India and in the Central Provinces it represents the rent, where rent is paid, or that portion of the gross produce which would, if the land were rented, be taken by the landlord. In Madras and Lower Burma, on the other hand, where Government deals, as a rule, direct with the cultivator, the net produce is the difference between the assumed value of the gross produce (of the land) and a very liberal estimate of the expense incurred in raising and disposing of the crop.*

There is no hard and fast rule as to the proportion of the net assets to be taken as land revenue by the Government, but approximate standards are laid down in the instructions to officers. For India as a whole it may be said that the standard share of the calculated net assets or produce (of the land) to be taken by Government is approximately one-half.

(f) **Enfranchised Inam Tenures.**—Under the Moguls, when land was granted revenue free or the revenue on the land already owned by the grantee was remitted, the term *inam* (reward or benefaction) was used for such grants. When the first British Land Revenue settlements were made the *Inam* holdings came under consideration. If the claimant, after undergoing a full examination could establish absolute freedom from any charge or revenue, he might do so; otherwise, all difficulty could be avoided by undergoing 'Enfranchisement,' that is, accepting reasonable limits for the estate, and a moderate fixed assessment of land revenue (in some cases this was allowed to be redeemed).

(g) See answer to question 2, 1918.

(h) **Remission and Suspension of Revenue**—Though the Land Revenue rates are legally leviable in full whatever the character of the season, experience shows that the payment becomes a great hardship to landholders who fall a prey to the vicissitudes of season. *In 1906—07, to smooth matters, a regular system of suspensions and remissions was introduced.* By it the collector has been authorised to order suspension of the collection of land revenue, if he is satisfied on enquiry that the step is necessary on account of partial or total failure or destruction of crops. As regards remissions, the grant of them depends on the character of three seasons following that in which the assessment is suspended. Ordinarily suspended arrears which are more than three years old are to be remitted by the Collector.

Question.—*Discuss the respective facilities of setting up and working a cotton mill in India and in England.*

Answer.—The cotton mill industry in England.

Advantages.

The cotton industry of England has greatly enriched the country and enhanced its commercial importance. The flourishing state of the industry in the vicinity of Lancashire is due to several reasons.

(a) *Huge capital* has been invested in the industry which never suffers from lack of resources.

(b) *Highly specialised and improved machinery* is always at hand to aid production.

(c) *The humid atmosphere of the place* is favourable for the manufacturing and weaving into fabric of cotton yarn.

(d) *The high degree of skill possessed by the cotton spinners* is due to their traditional familiarity with the industry.

(e) Cotton mills of England can easily dispose of their products because they are in close touch with the *markets within and outside the British Empire.*

Disadvantages.

(1) The outstanding difficulty of *England* in the matter of producing cotton goods is that it *has to depend on foreign countries*

for the supply of raw materials—chiefly America, Egypt and India.. During the American Civil War there was a marked fall in the supply of raw cotton from America, and England had to close down many of its factories. The dependence on outside for raw materials is a serious drawback from which the Lancashire cotton industry of England can never be free.

(2) *For the disposal of the stock, England mainly relies on foreign markets.* If war or protective measure impede the flow of English goods into other countries, England is faced with a huge glut and the whole industry is threatened with a serious depression.

The cotton mill industry in India.

Advantages.

These are precisely the factors which can never hamper the establishment of a cotton mill in India.

(1) *India grows raw cotton in abundance*, though not of a very superior quality. Attempts are being made to introduce and encourage the growth of long-stapled cotton in India.

(2) Indian cotton mills command *an extensive home market* and can to a considerable extent count upon the support of the local purchasers. There is a widespread *nationalist feeling* which urges Indians to discard foreign cloth and wear the stuff which is manufactured in India.

(3) *Indian capital* has not been shy in seeking investment in the cotton industry.

(4) *The humid atmosphere* which is favourable for cotton manufacture can be artificially created.

(5) A class of *skilled workmen* is being gradually trained up.

(6) The local industry has been given some amount of *protection* on account of the difference between the import duty on cotton goods and the countervailing excise duty on home products.

Thus there is at present almost every facility for erecting and working a cotton mill in India. The Indian cotton mill industry has the *disadvantages* (1) that it has to import machinery and has to pay high freights, (2) that the supply of capital is not so abundant and at such a cheap rate of interest as in England.

Question 5.—*State the foundation principles of Co-operative Credit Societies and discuss the educative effects that flow from the practice of these principles.*

Answer.—The fundamental idea of co-operation is '*all for one, one for all.*' Co-operation brings together isolated individuals who try to improve the lot of one another by *mutual help and comradeship*. The Co-operative Credit Societies create a common fund out of which every member is entitled to receive cheap credit. Such societies have worked wonders in the continent of Europe. *There are mainly two types of co-operative credit societies after their respective authors, Raiffeisen and Schulze-Delitzsch.*

The principles of a Raiffeisen Society are—

- (1) The members have unlimited liability.
- (2) They are taken from the same district or village ; so, one person cannot become a member of more than one society. The members are personally known to one another.
- (3) There is no entrance fee.
- (4) Service to the society is rendered gratuitously. The only paid member is the secretary-treasurer.
- (5) Loans are granted for productive purposes and on personal security.
- (6) No dividends are distributed. The surplus income after building the Reserve is devoted to public or charitable purposes.
- (7) Ordinarily no shares are issued. When they are issued they are of small value.

The principles of a Schulze-Delitzsch Society are—

- (1) It believes in large membership drawn from a wide area. The members have limited liability.
- (2) Large salaries are paid to the office-bearers.
- (3) It believes in the distribution of handsome dividends.
- (4) It does general banking business.
- (5) It charges entrance fees and keeps out poor persons.
- (6) Its aim is more materialistic than humanitarian.

The basic principle of Co-operative Credit Societies then is to provide *cheap credit but with thorough safeguard*. The good

name of a society rests on the *solidarity* of its members who derive both material and moral benefits from its existence.

See also Ans. to Q. 8, 1917.

• **Question 6.**—*Estimate the efficacy of the following as remedies against Indian famines :—*

- (a) *Increased Irrigation.*
- (b) *Increased Transport Facilities.*
- (c) *Increased Industrialism.*

Answer.—(a) **Increased irrigation.**

It is argued that **irrigation** is a better remedy than railways, because while *railways only distribute the produce*, *irrigation directly increases the produce*. But irrigation is (i) *a physical impossibility in some areas, e.g., in certain rocky areas of the Deccan*; (ii) *a financial impossibility in certain other areas because of prohibitive cost*. And where irrigation is impossible, railways become all the more necessary.

Charges against railways.

(i) *There is a charge against railways that they raise prices of commodities all over the country.*

At the same time railways by increasing prices increase production. The drawbacks of railways must at the same time be recognised. (ii) Bad construction of railways has greatly interfered with the natural and healthy flow of water. While some areas suffer from a permanent shortage of water supply, others remain for months water-logged.

(iii) It is pointed out that *the introduction of railways has destroyed the old hoarding system* which insured the sufficiency of grain to carry the population of any province through a single bad year. But the fact is, such savings have never withstood the ravages of a really large famine. When the question arises of the insurance of life, in case of a large famine, nothing but railways is a sure preventive.

(b) **Increased transport facilities (railways, etc.)**

Railways by bringing quickly food into a famine-stricken Indian province (from other Indian provinces where the crops are abundant) play a very important part in saving human life and is thus an important remedy against famine; before the

construction of railways food was not often available in a famine-stricken province, after railways food is available, but the people of the famine-stricken province suffer because many of them have no money to buy the food,—*railways have thus made famines famines of money, which before the construction of railways were often famines of food and money.*

Railways and irrigation have their usefulness in their respective spheres and they should not supplant but supplement each other for the purposes of prevention and mitigation of famines.

Non-official opinion and also to some extent official opinion as expressed in Famine and Industrial Commission Reports maintain that *for the purpose of famine protection more irrigation is now required and not more railways*; the net-work of railways required for famine protection has been already constructed.

(c) Increased industrialism.

Famines and scarcity are, no doubt, caused by a failure of the rains and sometimes by floods, and government have developed an elaborate system of preventive, protective and relief measures. *But as the Famine Commission of 1880 pointed out, no protective measures against famine can be adequate which do not include some attempt to diversify forms of employment.* Now-a-days agriculture forms almost the sole occupation of the mass of the population. There is too much pressure of population on land. *There will be much relief and contentment if the surplus population is drawn from agricultural pursuits and led to find the means of subsistence in manufactures or some such employments.* At present, the majority of population are thrown out of work by a failure of rains. If a portion of them are employed in industries which produce for stock or export they will be not so much affected by the failure of monsoons and resulting famine. By a process of industrialisation, the productive capacity of the people must be increased and the economic backbone of the nation must be strengthened. This view has been fully endorsed by the Industrial Commission of 1918.

Question 7.—*State the arguments for and against the introduction of gold currency in India.*

Answer.—Since 1864, there was a clamour for gold currency in India pioneered by the various Chambers of Commerce and

other public bodies. In 1893, the Herschell Committee spoke of familiarising gold in India, and in 1898, the Fowler Committee laid down "we are in favour of making the British sovereign a legal tender and a current coin in India." Following this observation the Government in India tried to push gold into circulation as a matter of experiment. About one million pounds were distributed, one-half of which were returned to the Government, the rest being either melted or exported. It was judged that "the experiment failed." The agitation for a gold currency subsided in the twentieth century though from time to time a demand for it was expressed in speeches and newspaper articles. The Royal Commission on Indian Currency and Finance of 1914, embodied their view in the following sentence. "It would not be to India's advantage to encourage increased use of gold in the internal circulation."

The arguments used by those who oppose the establishment of gold currency in India are—

- ✓ (1) Gold coinage in India is *unnecessary*, because gold sovereigns come into India freely from Australia, Britain and other countries.
- ✓ (2) Indian public is accustomed to the use of silver and a coin of high value like the sovereign is unsuited for a poor country like India.
- (3) *A gold currency for internal circulation in India would be wasteful, expensive and harmful.* It would be wasteful because gold will be melted and hoarded in India as soon as it will be issued, it will be expensive because no profit can be gained out of it as is received from the coinage of rupees, and it would be harmful inasmuch as it will raise the price of gold and thus depress business and trade.
- (4) A gold currency in India would be *ineffective in maintaining the exchange* at a time of crisis, because the sovereigns would then disappear into hoards.
- (5) The present system (*i.e.*, the Gold-Exchange Standard) is cheap and efficient. The Gold Standard minus gold currency (*i.e.*, the present Gold Exchange Standard) is held to be a feature of the ideal currency system of the future.

★ The arguments in favour of a gold currency may be thus summarised—

(1) The people are not so poor as to be unable to avail themselves of a gold currency. If they are rich enough for a Gold Standard, they cannot be too poor for its normal adjunct, a gold currency. The Indian people were accustomed to gold coins before the inauguration of the British rule.

(2) Too much is made of the Indian practice of hoarding. Gold currency was never introduced in sufficiently large quantity in India to justify such a statement. The Babington Smith Committee did not consider hoarding in India to be unusually large or glaring.

(3) A "managed" currency, like that of India, has serious drawbacks. The Government has to spend immense sums to support exchange in times of exceptionally favourable or unfavourable turns. The introduction of gold currency which will regulate exchange *automatically* will put a stop to such expenditure. A large amount of gold in circulation is the only strong and adequate support for exchange.

(4) Some prestige attaches to the possession of a gold currency, whereas a silver circulation is the mark of less progressive peoples.

(5) Most of the countries which had to suspend gold currency during the last war are now returning to the old order. The undoubted *moral effect* of possessing a gold currency cannot be denied.

☆ Question 8.—*What are the principal elements which, according to Marshall, constitute industrial efficiency? Which of these elements are inherent in Indian character, and which are difficult to assimilate?*

Answer.—Industrial efficiency and its elements.

In many occupations, industrial efficiency requires little else than *physical vigour*; that is, muscular strength, a good constitution and energetic habits. Although the power of sustaining great muscular exertion seems to rest on constitutional strength and other physical conditions, yet even it depends also on force of will and strength of character. Energy of this kind is as much moral as physical.

(1) The first of the causes that go to determine industrial efficiency is *the climate*. In warm countries one finds early marriages and high birth-rates and in consequence a low respect for human life.

(2) Vigour depends partly on *race qualities* which, again, owe much to climate.

(3) Climate has also a large share in determining the *necessaries of life*, the first of which is *food*. Much depends on the *proper preparation of food*.

After food the next necessities of life and labour according to Marshall are *clothing, house-room and firing*. When they are deficient, the mind becomes torpid and ultimately the physical constitution is undermined. *Rest* is equally essential for the growth of a vigorous population; over-work, anxiety, worry, excessive mental strain lower vitality.

(4) Next come three closely allied conditions of vigour, namely *hopefulness, freedom and change*. All history is full of the record of inefficiency caused in varying degrees by slavery, serfdom, and other forms of civil and political oppression and repression.

(5) Bodily and mental health and strength are much influenced by *occupation*, the surroundings in which the operatives work.

(6) Industrial efficiency is largely affected by the influences of *town-life*. In almost all countries there is a constant migration towards the town. Coal, steam, iron, over-crowding, dirt and squalor of old fashioned factory towns and electricity, hygiene, architecture and art of newly planned cities influence the life of the inhabitants in entirely different ways.

India—

(1) *The enervating climate of India has told upon the industrial efficiency of its people*. Men cannot work for hours steadily with unabated energy as fatigue and exhaustion soon overpower them. The Indian people consists of a conglomeration of races some of which are very much sturdy and painstaking but others are idle and pleasure-loving.

(2) India grows food-stuffs in abundance for the maintenance of its inhabitants. But the poverty of the Indians is so appalling,

that many do not possess means to purchase nutritious *food* in sufficient quantity. The problem of *clothing* is not very strong, with the inhabitants of India because they are not required to spend much on this item in the warm climate of India. For similar reasons, firing does not constitute a factor in the industrial efficiency of the people. The *housing conditions* in India are far from satisfactory, though the agricultural labourers possess separate huts of their own and have good access to air and light. The accommodation of factory labourers in *Chawls* or *bustees* is comfortless and insanitary and there is room for much improvement in this direction.

(3) If the Indian operatives are somewhat incapable of doing sustained labour, they are neither in the lucky position of enjoying well-earned rest. Big family, social obligations, indebtedness deprive the wage-earners of sweet repose and cast upon their faces a melancholy gloom. *Hopefulness and cheer they have none*. Political oppression and economic bondage have driven away from them the charm of life. Sir Michael Sadler, during his tour in India as the President of the University Commission made the significant remark that he noticed a sad deficit of laughter in Indian homes, a deplorable want of smiles in Indian lips.

Industrialism has come to stay in India. Its attendant evils have already made themselves manifest here and are telling adversely upon the health and morals of the factory labourers. Insanitary dwellings, overcrowded rooms, vicinity of grog shops, absence of healthy recreations, disproportionate excess of male over female population are all affecting the vigour of the population in an injurious manner. The eradication of these evils is the crying need of the hour. They must be boldly approached and tackled. In this way alone can we ensure and enhance the industrial efficiency of the labourers in India.

✓ **Question 9.**—*The accounts of the Government of India are divided into four sections, as follows :—*

- (a) *Revenue Account.*
- (b) *Capital Account.*
- (c) *Debt and Deposit Account.*
- (d) *Balances.*

Explain clearly what each of these signifies.

Answer.—The receipts and charges of the Government of India, for accounts purposes, are divided into two parts :

- (1) Capital.
- (2) Revenue.

The expenditure charged to *Capital Account* is on such heads, as Railways, Irrigation, Telegraphs, New Capital of Delhi, etc. Expenditure from *Revenue Account* is on Famine Relief, Public Works Department, Mint, etc. An example will make the thing clear. In irrigation finance, *Capital* bears all charges for the first construction and equipment of a project as well as charges for maintenance on sections not opened for working. *Revenue* bears all charges for maintenance and working expenses which embrace all expenditure for the working and upkeep of the project, as also for replacements and minor additions or improvements.

Debt and Deposit Accounts show the amounts received and paid on account of debts, deposits and advances. Under this head are included all receipts and payments in respect of which the Government becomes liable to repay the money received or has claim to recover the amount paid.

The *Cash Balances* of the Government may be considered under the following heads :—

- (1) Treasury Balances
- (2) Gold Standard Reserve Balances.
- (3) Paper Currency Reserve Balances.

Gold Standard Reserve and Paper Currency Reserve balances have been explained elsewhere. In the Treasury balances are included :—

- (i) revenue surpluses of past years
- (ii) unexpected balances of loans raised
- (iii) cash balances of Provincial Governments as well as balances of their Famine Insurance funds
- (iv) balances of deposits of Savings Banks and Service Funds

(v) balances of a large number of Municipalities and Local Funds. It will be obvious that the treasury balances do not

represent money belonging to the Government of India, any more than does the cash balance of a bank represent property belonging to its shareholders. Therefore, the size of the treasury balance is not a true index of the financial position of the Government of India.

Question 10.—*Write a brief critical note (not exceeding five pages) on the hoarded wealth of India.*

Answer.—Since the days of Pliny who regarded India as "*the sink of precious metals*" much has been made of the hoarded wealth of India and exaggerated views are held about its size. By *hoarding* is, of course, meant the habit of allowing wealth to be idle and of making an unremunerative use of what might have been employed in the further production of wealth.

Attempts have been made both by European and Indian writers to estimate *the hoarded wealth of India*. Sir Ernest Cable, Henry Macleod, and others computed it to be worth not less than £ 550 millions (Rs. 800 crores) in gold and silver.

Indian thinkers, however, hold a less extreme view. Sir Vithaldas Damodar Thackersay maintains that it cannot be denied that Indians hoard some wealth. But the amount concerned is very small. The recurrence of famines and heavy mortality prove this. The Babington Smith Committee gave a very careful consideration to the above matter and came to the following conclusion: "We do not consider that the quantity of gold taken by India for all purposes in the period before the war was disproportionately large in relation to her economic condition, and it must be assumed that so long as existing conditions prevail India will continue to require a considerable quantity of gold."

The situation becomes clear if we examine carefully the *different kinds of hoards*. The hoards once belonging to *Rajas and big Zamindars* are already being utilised in industrial centres. The hoards belonging to the richer agrarians are drawn for investments in the agricultural field where the rate of interest or of usury to be earned is still very large. Then again, hoarding in general has a *social and religious side* which ought to be emphasised.

*The habit of hoarding has been fostered by insecurity, the absence of a strong government, ignorance and a love of display. The hoard of an Indian family mostly consists of ornaments used by women and children. Even in progressive countries, fashion dictates the locking up of a large amount of wealth in plate and jewellery. The social customs of the people require that a married woman must have a certain quantity of jewellery which constitutes her *Stridhana*. In India, ornaments have been the average person's bank. It is the easiest and the most convenient method of saving and keeping wealth. They are often pledged for raising industrial and trading capital as well as for tiding over family difficulties.*

With the establishment of peace and orderly government under British rule, has come security of life and property and ornaments need not be the deposit bank of any class of people. However, ignorance, lack of banking facilities and old customs still stand in the way. Education will cure the Indian population of this uneconomic habit. They are gradually coming to understand the benefit that may be derived from the investment of their surplus income in government securities and industrial enterprises, and that is a very hopeful sign.

Question 11.—*It is said that in India the rate of interest is not always determined by the conditions of supply and demand of capital and that the Co-operative Credit Societies are tending to the establishment of what is called a market rate of interest. Expound this proposition.*

Answer.—India is on the point of emergence from an old economic order. The characteristics of that order were predominance of agriculture, self-sufficiency of villages, supremacy of custom and so on. Thus, *custom* rather than *competition* ruled the rates of wages, interest and prices. With regard to the rate of interest, within the village there was the operation of the laws of demand and supply. But the extent of the village being small, the laws operated in a very restricted way. There was the want of cheap credit and the practice of inveterate *usury* prevailed.

In India the rate of interest at which cultivators can obtain loans is invariably very high. The agriculturists as a class cannot avoid borrowing. This unfortunate necessity places

them at the mercy of the money-lenders. They being the weaker party, cannot bargain and establish the *competitive rate*, but have to accept whatever terms their creditors choose to dictate. *The following appear to be the reasons of the above state of things* (i.e., the want of a market rate of interest in the village) :—

- (1) The ignorance of the cultivators
- (2) Their appalling poverty and inherited indebtedness
- (3) Their distance from the towns where banks are situated
- (4) The reluctance of the banks to extend small transactions to villages among an ignorant people ; and
- (5) The want of sufficient knowledge regarding the substance or integrity of the borrower.

According to a very competent observer, Mr. William Crooke, from 56 to 78 per cent. of the Indian cultivators are in debt. Sir Theodore Morison thinks that the average is about two-thirds of the whole body of cultivators who generally borrow from the village money-lender at exorbitant rates of interest. From a return furnished at the All-India Registrars' Conference held at Simla in 1906, we find that the rates of interest charged by the village money-lender on agricultural loans to ordinary cultivators are :—

Provinces				Rates	
Madras	...	...	...	12 to 15	per cent.
Mysore	...	...	...	12	do
Bombay	...	...	...	12 to 15	do
Central Provinces	...	...	...	18 to 25	do
Bengal	...	...	...	18 to 25	do
Eastern Bengal	...	...	...	18 to 24	do
Assam	...	...	...	37½	do
Punjab	...	...	...	24	do
Oudh and Meerut Divisions of United Provinces	...	...	...	12 to 18	do
Other Divisions of United Provinces				37½	do

Borrowing at 75 or 100 per cent. is also by no means rare in India. What cultivators of this country need to-day is organised credit—cheap and facile, adequately surrounded with proper safeguards. *The Co-operative Credit Societies* are working in this direction. The main business of the societies is to raise funds by deposits from members and by loans from non-members, Government and other public bodies, at the prevailing market rate of interest and to distribute the money at a little higher rate to their needy members. They take the money back in small instalments. They keep regular accounts of their transactions with their borrowers. *As they have no fraudulent desire to ruin their own members, they do not saddle them with heavy rates of interest.* Thus the *Co-operative Credit Societies* are tending, by their activities, to establish the market rate of interest, (i.e., the rate determined by the laws of demand for, and supply of capital) in rural areas of India (which are till recently the strong-hold of stagnant customs and unfair exploitation of the debtors by the creditors).

1919.

Question 1.—*Give a brief outline of the history of Indian foreign trade down to the end of the 18th century. Contrast the character of the foreign trade of the 18th century with that of the present time.*

Answer.—In the past India had a large foreign trade. Traffic by sea perhaps began about the commencement of the seventh century B.C., though intercourse with the Mediterranean had taken place much earlier. There was a land route *via* Sind and Muscat. Another route lay along Persia and Babylonia. *In ancient times India exported spices, precious stones, muslins, etc., and received in exchange precious metals.* The annual drain of specie from Europe to India amounted, according to Pliny, to £458,000. The discovery of the possibility of using the regular winds of the monsoon opened a number of water routes.

The Syrian route having been closed during the Crusades, the northern trade route by land prospered for a time. Commercial activities continued in full vigour till the 10th century A.D. *During the Mohammedan rule, maritime commerce was gradually abandoned but trade by land was maintained.* The discovery of the Cape route to India by Vasco Da Gama in 1498 opened a short, safe and cheap passage for the commerce between India and Europe. Foreign maritime commerce was thus once again revived, this time, however, by Europeans.

'In the 17th and 18th centuries the Portuguese, French, Dutch and English companies competed with one another for the largest share of the trade with India. Ultimately the East India Company was able to oust the rival companies from India.' *Invention of steamships, the opening of the Suez Canal and the extension of railways in India brought India much closer to Europe and gave a fresh stimulus to the foreign trade of India* and to the commercial development of this country.

On account of bad inland transport system and faulty conditions of navigation, bulky articles of small value did not enter foreign trade in early times, though these bulky articles of small value (cotton, jute, rice, wheat, etc., from India and coal, hardware, etc., from Britain) are now the principal articles of foreign trade and *only articles possessing great value in small size, like silk, muslin, precious stones, etc., formed the commodities of international trade in early times.* The trade of the East India Company was at first limited to about half a dozen ships. Gradually the trade became more diversified. The following were the steps taken to facilitate trade—

- (1) Railways, Telegraphs, opening of the Suez Canal.
- (2) Reform of the fiscal system of England.
- (3) Abolition of transit duties in India.
- (4) Simplification of exchange difficulties.
- (5) Institution of the Department of Agriculture, Commerce and Industry.

These improvements introduced mainly in the nineteenth century have greatly changed the nature and character of Indian trade in modern times. The only ancient feature, (i) the importation of precious metals, however, continues without any marked

change; (ii) some goods, for long the most important items (e.g., commodities of great value and small bulk like silk, muslin, etc.) in the export trade of India have decreased much in importance, while other goods of large bulk and small value have now gradually taken their place, viz., food grains (chiefly rice and wheat), raw cotton and cotton yarns, raw jute and its manufactures, oilseeds, tea, hides and skins, and opium.

(3) In the import trade also great changes have taken place. English cottons have increased in such a degree that they now represent between one-third and one-fourth of the aggregate imports. Prominent in the lists also are cotton yarns, metals (iron, steel and copper), earthenware, machinery, sugar and salt.

(4) In early times India largely exported manufactures; India now largely exports raw materials and food-stuffs and imports largely manufactures.

Thus we notice a revolution in the character of both Indian exports and imports since the end of the eighteenth century. Some writers ascribe this change to the Industrial Revolution in England and other western countries which substituted hand power by steam and machinery. This is partly true. But the mechanical inventions, by themselves, would not have been of much avail, if they were not backed by a deliberate policy on the part of Britain to throttle Indian manufactures. This is the well-considered opinion of Wilson, Naoroji, Digby, R. C. Dutt, Malaviya and a host of other historians, economists and publicists. R. C. Dutt observes, "British manufactures were imported into Calcutta on payment of a small duty while the import of Indian manufactures into England was discouraged by many duties ranging up to 400 per cent. on their value." It is thus evident that a prohibitive, destructive and discouraging policy led to a revolution in the nature of Indian exports and imports.

Question 2.—Give an account of the mineral wealth of India. ¹²
Is it such as to afford for supposing that India can become an important manufacturing country?

Answer.—The mineral wealth of India has not yet been fully ascertained, but judging from the actual experience, it may be said, that India is rich in mineral resources. Mr. V. Ball,

in his introduction to the *Economic Geology of India* quotes the statement of Megasthenes that "India has underground numerous veins of all sorts of metals" and regards it as absolutely true.

Coal is the most important of the mineral products of India. Its quantity is large and quality good. *Iron ores* of a superior grade are found in abundance in various parts of India (See Ans. to Q.). *Petroleum oil* is found chiefly in Assam, Burma and Baluchistan. *Rock-salt* is obtained in large quantities in the Punjab. *Tin* exists only in Lower Burma and some districts of Chota Nagpur. Most of the materials used for agriculture and the chemical industries, *e. g., saltpetre, gypsum, alum, sulphur, borax and soda salt* are obtained from the soil in one part or the other of India.

India was, in ancient and middle ages, famous for her precious metals. At present her production of these is not large, though it is still considerable. The most important of these is *gold* which is found chiefly in Mysore. Both *copper* and *lead* are widely distributed over the whole of India. In some places *silver* and *zinc* have been found associated with lead. Recently, *aluminium* has been discovered in Burma. It is believed this industry has a great future before it. *Manganese* and *Mica* are some of the most important mineral products of India. Besides these there are various kinds of miscellaneous minerals. The above account of the mineral resources of India makes it clear that she possesses every facility.

The above account of the mineral resources of India makes it clear that she possesses every facility to become a manufacturing country. There is at the disposal of India motive power, coal and oil, in abundance. The raw materials to be worked up and manufactured with this motive power are also not wanting, *e.g., Iron, aluminium, tin, etc.* India need not apply to the outside world for chemicals, saltpetre, soda, sulphur and so forth, which are necessary requisites for carrying on every industry. Thus, Nature has provided India with every facility to be a manufacturing country. It is for the people of the land to be alive to their advantages and to tap and utilise them properly, so that the observed goal may be reached within a measurable distance of time.

Question 3.—*Carefully explain what is meant by a Revenue Settlement in Bengal. How is it carried out? Under what conditions can the rent of an occupancy holder in Bengal be raised?*

Answer.—See answer to question 6, (a) (b) and (c), 1917.

Conditions under which the rent of an Occupancy holder can be increased.

The Permanent Settlement of Bengal in 1793 fixed the land revenue of the province in perpetuity. Though it defined the relation between the Government and the landlords, it did not throw any light on the connection between the landlords and the tenants. Up to the middle of the last century the *Zamindars* exercised an unbounded authority over the *ryots* (tenants). All legislation of this period, dealing with landlord and tenant had one primary object, *viz.*, the security of the public revenue.

Act of 1859 and occupancy right.

Act 10 of 1859 which removed many evils of the then existing state of things may be described as *the first modern tenant law of India*. For those who had held land at the same rent since 1793 or for twenty years, it declared that the rental should remain unaltered for all time to come. To those cultivators who had held the land for twelve years *the right of occupancy* was conceded (fixity of tenure was insured) and their rent could not be raised except on some specific and reasonable grounds, such as a rise in the value of the produce, an increase in the rate in the neighbourhood, etc.

Act of 1885 and occupancy right.

But the Rent Act was found to be less useful than had been expected. It gave the tenant the *right of occupancy*, which he could not prove in the face of his landlord. So in 1885, the Bengal Tenancy Act was passed which gave the needed protection to the cultivators without infringing in any way the just rights of the landlord. The Act provides that every *ryot* who has held any land in a village for twelve years, acquires thereby *a right of occupancy*. His rent also cannot be *raised* at shorter intervals than *fifteen years*. All tenants are empowered by the Act to appeal for decision to law courts *for every enhancement of rents*.

"Further, money rents could be increased only in two ways, viz.—(1) they could be enhanced by a registered contract and even then only to the extent of two annas in rupee; (2) they could also be enhanced after a suit in court on the ground of an increase in average prices or of increase in the productive power of the land. The broad principles on which the Act was based were, (a) to give the *ryots* full security in their holdings; (b) to allow the *Zamindars* to enjoy the fruits of their improvements, and (c) to devise ways by which the disputes between the landlord and the tenants can be easily settled." "The Act of 1885" observes Prof. S C. Roy "though not professing to be an exhaustive code of law of the landlord and tenant, is nevertheless a complete and self-contained enactment so far as most agrarian relations are concerned."

Question 4.—*Explain as fully as you can the following terms :—*

- (i) *Palmdar*.
- (ii) *Talukdar*.
- (iii) *Waqf-lands*.
- (iv) *Abwab*.
- (v) *Ulbandi Tenure*.
- (vi) *Khas Mahal*.

Answer.—(i) See Ans. to Q. 7, 1917.

(ii) **Talukdar.**—In pre-British days, the increasing difficulties of Revenue management and the impossibility of a weak government exercising efficient local control over its subordinates, suggested that it would be easier to divide the districts into large blocks or estates, to calculate (from the Treasury Accounts) a rough total sum which the tract ought to yield, and then to get some capitalist or local landholder of wealth and influence to undertake the entire management and be responsible that the required total should be paid into the Treasury every year. The persons, thus employed by the government, were generally called *Talukdars*. The term did not imply any definite right of ownership in the soil. It simply implied that the persons (*talukdars*) were managing the state right in the land, and that they were 'dependents.' (Arabic *ta' alluq* = dependency of the ruling power.)

(iii) **Waqf Lands.**—*Waqf* lands are rent-free lands appropriated for Mohammedan religious or charitable purposes. Like the *debottar* lands of Hindus, *waqf* lands are neither liable for the debts of the testator, whose proprietary rights cease after the completion of the endowment, nor alienable, though transferable temporarily for the preservation or benefit of the endowment or the mosque.

(iv) **Abwab.**—Before the promulgation of the Permanent Settlement, *Zamindars* were in the habit of levying various kinds of *extras* or *cesses* (e. g. in time of domestic ceremonies) in addition to the rent. These additional cesses are called *Abwabs*. They have been declared unlawful and have been abolished by Lord Cornwallis in 1793, but in some cases still they continue to be levied resulting in the oppression of tenants.

(v) **Utbandi Tenure.**—*Utbandi* means "assessment according to cultivation," from *uthil*—risen, and *bandi*—assessment. There are different types of *utbandi* which, however, may be generally described as a tenancy at will.

(iv) **Khas Mahal.**—*Khas Mahals* are estates directly held by the Government. They denote lands (chiefly in Bengal) of which a settlement has been refused, or which have been auctioned for arrears of Revenue, and have not found a purchaser, have become Government property. There are also 'government estates' in Bengal, in some cases, because there was no proprietor to whom the Permanent Settlement applied; in others, because the territory was exempted from the permanent settlement regulations and declared to be directly under Government management. Sometimes considerable areas of alluvial island (*char*) formed by the changing action of the rivers become Government property and *Khas Mahal*.

Question 5.—Describe carefully the organisation and functions of a village co-operative credit society. How far do you consider that these societies normally realise the ideal of co operation?

Answer.—See answer to question 8, 1917 and question 5, 1918.

Modifications of the Raiffeisen system in India.—Indian rural credit societies are essentially based on the Raiffeisen model; but certain important modifications have been found necessary.

(1) Raiffeisen societies proper grant loans for productive purposes only. In India, loans are granted for purposes other than production, e.g., on ceremonial and religious occasions, such as marriage, sradh, etc., which are imperative necessities to the Indian people. A refusal to grant loans of this type would have the effect of driving the agriculturists into the hands of ordinary money-lenders.

(2) Raiffeisen societies insist on sureties, Indian co-operative credit societies do not for the simple reason that a signature can be purchased.

(3) In various parts of India, societies with a share basis (thus departing from the Raiffeisen type) are spreading. The system has the advantage of causing a rapid accumulation of capital, but at the same time it excludes the very poor who most deserve the assistance of co-operation.

(4) In Raiffeisen societies the richer members dominate. In India the constitution of the rural societies is more democratic.

The co-operative movement has come to stay in India. In the beginning of the twentieth century there was nothing beyond a few scattered experiments to indicate the presence of the movement in India. *In 1920 there were over forty thousand co operative societies, with more than fifteen hundred thousand members, and with a working capital amounting to about twenty-one crores of rupees.* The success which the co-operative movement has achieved so far, must be regarded as satisfactory. But in our enthusiasm for the movement we should not be blind to its weak spots. There are some formidable obstacles in the way of rural co-operation in India.

Difficulties and obstacles in the path of the Indian Co-operative Movement.

(1) Illiteracy is the greatest of all obstacles which check the progress of co-operation in India. Very often it is impossible to get a properly qualified secretary to keep accounts and manage business. Because of illiteracy the members of the Indian co-operative credit society are not able to supervise the management of the society and are not able to control the committee.

(2) The *selfishness* of the members of the managing committee leads them to appropriate the greater portion of the loans.

(3) *Favouritism* in advancing loans and *unpunctuality* in repayment.

(4) Excessive government control and bureaucratic regulation are also obstacles undermining the foundations of self-help and mutual help on which true co-operation should rest.

To remove these defects the following means are being and should be taken : (1) spread of education, (2) inspection and instruction, (3) organisation of general meetings and business-like financing, (4) careful organisation and less of official control.

Question 6.—*Explain precisely the meaning of a Gold-exchange Standard. How does it differ from a simple Gold Standard? Which of these two standards do you consider the better for India, and why?*

Answer.—*In essentials, the Gold-exchange Standard means (1) the use of a local currency mainly not of gold, some degree of unwillingness to supply gold locally in exchange for the local currency, (2) but a high degree of willingness to sell foreign exchange for payment in local currency at a certain maximum rate and to use foreign credits in order to do this. So the Gold-exchange Standard makes gold available for foreign payments though not for internal use in the country.*

Another definition says "the Gold-exchange Standard may be said to exist when gold does not circulate in a country to an appreciable extent, when the local currency is not necessarily redeemable in gold but when arrangements are made for the provision of foreign remittances in gold at a fixed maximum rate in terms of local currency, the reserves necessary to provide these remittances being kept to a considerable extent abroad."

The above explanation of the Gold-exchange Standard brings out clearly its points of difference from the ordinary Gold Standard in which we have circulation of gold for both (1) local use in the country (2) and international payments and foreign exchange.

See Ans. to Question 7, 1918.

In the Gold Standard, gold is the standard of value, and gold is available for foreign payments, also gold is available for

internal use as currency. The Gold-exchange Standard has been called the Gold Standard without a gold currency—for in the Gold-exchange Standard, gold is available for foreign payments, but gold is not available for internal currency, the internal currency consisting of cheaper materials, silver and paper. And to make gold available for foreign payments, in exchange for rupees (the internal currency), the Gold-exchange Standard has the Gold Standard Reserve (out of which funds in sterling are provided in exchange for rupees at certain fixed rates).

The Gold-exchange Standard is undoubtedly more economical in as much as it dispenses with the use of gold for local purposes (i.e. for internal currency purposes within the country). The introduction of a gold standard with a gold currency for internal use means a huge expense which will not only deplete India's treasury but depress world prices by raising the value of gold.

There is however a section of *public opinion in India* which is *overwhelmingly in favour of a gold standard and a gold currency and will not mind the initial expenditure*, (a) because gold currency is calculated to *import more stability into the foreign exchange* and (b) *add to the prestige of India* in the estimation of the outside world. (c) The healthy economic and moral influence of possessing an automatic gold currency (in the place of the present artificial, 'managed' gold exchange standard) is also a factor worth serious consideration.

Question 7.—*What are the principal measures adopted by Government for relief in the event of Famine? Can you suggest any improvement upon the existing methods?*

Answer.—**Stages of an Indian Famine Relief Campaign.**

(1) *Standing preparations*

The frequency of famines has led Government to keep standing preparations, always ready to cope with the calamity. Every province has its own special Famine Code. It records the standing arrangements that are to be made as a precautionary measure, the ways and conditions of relief that is to be evolved, the procedure according to which the officers should discharge their duties, etc.

(2) *Danger signals*

The signals of an approaching famine are failure of crops, rise of prices, prevalence of unemployment, increase of theft

and robbery, a deterioration in the health of the people and a rise in the death-rate.

(3) *Preliminary action.*

As soon as the Local Government is able to read these signals it takes preliminary action. It explains its policy, seeks the co-operation of the non-official gentlemen and induces them to extend private charity. When cases of death from starvation are reported, village inspection commences and a list of persons requiring urgent relief is drawn. If their number increases poor-houses are opened.

(4) *Test Works.*

Later, test works are opened. Care is taken that tests are not so strict that the Government would fail to understand the people's real condition and again they should not be so lenient as to lead to improvident and unnecessary expenditure.

(5) *Relief Works.*

When the distress becomes acute and death roll increases, the relief works are thrown open and they give additional relief not only to those who are already in receipt of the help but also to their dependants. The distribution of gratuitous relief also commences simultaneously.

(6) *Rains policy.*

A new policy begins with the rains. The chief object now is to secure the re-establishment of ordinary agricultural conditions in the villages and people are encouraged to go back to the villages to cultivate the land and sow crops. The people if employed on large relief works are transferred to small public works near their homes and villages.

(7) *The closure of relief.*

Lastly comes the closure of the relief. It is seen that this should be done neither too suddenly nor should state relief be continued after the necessity for it has ceased. Gratuitous relief operations are closed a little earlier but poor houses are kept open until the harvest has been gathered.

The rules recommended by the several Famine Commissions and embodied in the Famine Codes leave very little to be desired. *But in practice the success of famine relief operations*

depends very largely upon the foresight, energy and sympathy of the executive officers of the Government.

We ought not, however, to rest content with mere palliatives. Prevention is always better than cure and it will certainly be wise to tackle the problem at the very root. Construction of railways and canals, prevention of the destruction of forests will give more power to the elbow of the people to fight with the scourge. Emigration, if properly organised, will appreciably help to relieve the pressure of the population on the soil. The extension of co-operative credit will be very useful in checking indebtedness and promoting thrift among villagers. But as the Famine Commission of 1880 pointed out, no protective measures can be adequate which do not include some attempt to diversify forms of employment. A bold frontal attack must be levelled at the evil and the productive capacity of the people must be raised. More capital, more industry, more work and greater efficiency and productivity are the essential conditions of success in the fight against famine.

Question 8.—*Examine the principal causes for the variation of agricultural prices in India. Do you consider that rising or falling prices are preferable from the standpoint of general prosperity?*

Answer.—Though there was probably never a customary price in India, laws of demand and supply could not have full play on account of ignorance, poverty, want of communication, etc. The isolation of many districts, before the opening up of the country by railways and roads, deprived them of any outlet for their surplus goods in times of plenty, and periods of scarcity made them depend wholly on their own scanty supplies. But in consequence of present improved communications, the prices have now attained comparative stability and are all linked together and fluctuate simultaneously in the different parts and provinces of India.

For causes of the rise of prices see Ans. to Question 6, 1913.

Advantages and Disadvantages of Rising and Falling Prices.

No absolute rule can be laid down regarding the disputed point whether rising or falling prices are better conducive to

general prosperity. Under varying conditions both may have their usefulness. *Rise of prices is welcomed by all producers whose activities are quickened by a thought of reaping higher profits. Consumers, in their turn, desire and benefit by falling prices.* The population of India are mainly agricultural ; 72 p.c. being directly or indirectly connected with land. *Rising prices are hailed by them in their capacity as producers. A rise, however, affects adversely the middle classes, industrial labourers and persons with fixed income* (salaried persons and persons with fixed incomes from pensions, investments, etc). There has been a good deal of discussion of the question whether appreciation or depreciation is more advantageous to society. *The usual opinion is that falling prices are a greater evil than rising prices,* because, it is supposed, that gradually rising prices stimulate production. It is urged that the prospect of rising prices constantly encourages the entrepreneurs to increase their product, in order to anticipate further increases. This statement must however be accepted with certain reservations.

Question 9.—*Compare the advantages and disadvantages of the Permanent Settlement with the Raywatwari system of Land Revenue.*

Answer.—See Ans to Question 1, 1918,

1920

Question 1.—*Locate in Bengal (a) the distribution of mill industry, (b) the centres of coal mining, (c) the important seats of artistic industry, (d) the important inland distributing centres of jute, (e) the tea gardens and (f) the important ports.*

Answer.—Mill industry has flourished chiefly in Calcutta and its suburbs. *Beginning from Diamond Harbour in the South and right up to Naihati in the north, there is a long belt of mills on both sides of the Ganges.* In addition to these, there are stray mills here and there in Bengal, such as Mohini Cotton Mill of Kustia, the jute mills of Naraingunj or the iron workshop at Asansol. The mills round about Calcutta and its suburbs are producing various kinds of goods—too numerous to be noted. Jute, cotton, leather, flour, oil, glass and pottery, simple machinery, railway and building materials, etc., are all being manufactured in some shape or other in the vicinity of Calcutta.

(b) *Bengal is the greatest source of coal in India.* Its production amounts to 90 p. c. of the total Indian output. Coal mines are found mostly in the valley of the Damodar in the Jherria and Ranigunj fields. The rest of the supply comes from Giridhi, Daltongunj, Rajmahal and Sambalpur which are now included in the province of Behar and Orissa.

(c) Bengal was once the seat of many artistic industries. Many of them are languishing to-day on account of competition of mill-made substitutes and withdrawal of local patronage. The *muslin industry of Dacca* had a world-wide reputation and even Rome, once "the mistress of the world," was fond of wearing Dacca Muslins. The *conch-shell* industry of the same place is another field where indigenous skill and craftsmanship have made their mark. The *silk* industry of Berhampur is of established fame. *Brass and bell-metal* industry is also thriving in the same locality. Both Berhampur and Dacca were the seats of *Nawabs* and aristocrats. In the past artistic industries used to localise in places where they received encouragement and patronage. This fact deserves careful notice. *Pottery* is another object whereupon village artists have bestowed much attention. Earthen wares, toys and images for worship are always in demand in a Bengali household. Almost every village possesses a potter of its own. The *Krishnagar artisans* have in recent years acquired a great ability in this line.

(d) Bengal holds the virtual monopoly of jute in the world. Eastern Bengal comprising the lower course of the Ganges is the most important jute-growing centre in the world. The two important inland distributing centres for jute are Serajgunj and Naraingunj. They are both situated on the wide navigable *Pudma* and are great marts where raw jute is brought and distributed in various directions

(e) Tea is produced chiefly in Assam. The Darjeeling and Jalpaiguri districts of Bengal contain many tea gardens which yield very fine qualities of tea.

(f) Calcutta and Chittagong are two first-class ports of Bengal. Calcutta is situated on the river Hoogly within a distance of about eighty miles from the Bay of Bengal. It is the premier city of India. The port serves the great jute, tea and coal industries, the wheat and seeds traffic of Bihar and the United Provinces and generally the agricultural areas tapped.

by the lines of the East Indian, Bengal Nagpur and Eastern Bengal Railways and by the numerous waterways connecting the delta with the interior of Bengal and Assam. Chittagong has trade connections mainly with Burma and serves as a halting place for the coasting traffic. The natural situation of this harbour is excellent and in the opinion of experts the port has a great future before it. Besides, there are numerous river ports, such as Naraingunj, Seraingunj, Chandpur and Barisal which handle a considerable tonnage of goods for transport purposes.

Question 2.—*Examine the principal features of the transition from the agricultural to the industrial stage.*

Answer.—India is now passing through a great economic revolution.

(a) Indian villages and the economic transition

The Indian village was still recently almost self-sufficing and was in itself an economic unit. The village agriculturists grew all the food necessary for the inhabitants of the village. The artisans followed their hereditary callings. They possessed little capital and there was no competition.

But the village life is being transformed, new economic ideas have begun to influence the minds of the villagers, hereditary occupations are being thrown up and migration of labour has set in towards factories and cities. An important change in the rural industrial life has been brought about by the introduction of money economy. The penetration of railways has created wants in villages, which were unknown before. The presence of a class of middlemen and intermediaries has encouraged the consumption of imported goods and export of local products.

(b) Indian towns and the economic transition.

While such a scene is being witnessed in the villages, industrial towns and factory cities are fast coming into prominence. Industrial revolution has commenced in India. Machinery is being substituted in the place of manual labour. The application of large masses of capital to wealth production by professional entrepreneurs is going on. Autonomous workers are being converted into factory hands. The evils which follow in the heels of industrial revolution have not been slow to make their appear-

ance. The dirt and squalor, the overcrowding and demoralisation which accompany a factory and its associates are deadening the finer elements of human nature in India.

Industrial change has already made its appearance without any invitation of the people. It is not in the power of anybody to prevent it. If the people of this country will not take advantage of it, there are others who will. The only advice which the economist can, under such conditions, offer to the people is to ask them to take things as they are, instead of fighting against the inevitable, to profit by the experience of other nations and to try and minimise the evils of the great industrial change.

Or, *Specify the divisions of labour in a particular handicraft or cottage industry with which you are familiar.*

Answer.—Handloom weaving is the most important cottage industry of India. Two-thirds of the skilled artisan population of the country are handloom weavers. Moreover, weaving is followed as a subsidiary occupation by a large proportion of the population.

The first step in the process of handloom weaving is the *preparation of the cotton*. India imports every year a large quantity of American and Egyptian cottons which are sold in markets and purchased by weavers. Besides, cotton is grown in plots of land adjoining the weaver's cottage. Women are employed in gathering the pods of cotton from the fields. The pods are then exposed to the sun and the husks removed. The cotton is cleaned by separating the seed from the fibre. This is done at first with the hands and then with the small hand-machine called the *Charki*.

The next process is that of *carding*. This is done by the *Dhuma* by means of the *Dhunetti*. Some of the cotton thus carded is used in quilts and pillows, but the greater portion is spun into thread.

Spinning, of course, comes next. Cotton in the form of a wick is presented to the point of the spindle and then spun into a thread, which is allowed to roll round the spindle.

The next process is that of cleaning and stiffening the thread in the *khai*, *chera* or rice water. Then it is dried by being stretched across a number of stakes in the sun.

The thread which is thus spun and cleaned in the weaver's cottage is then ready for the last process. The threads are arranged in longitudinal shapes. An iron instrument called *Maku*, to which some fresh thread is attached is passed from one side to another through the threads and supplies the cross-threads. Thus the weaving is completed. The handloom industry was gradually losing ground on account of the severe competition of the mill-made cloth and yarn. Mahatma Gandhi's movement for *Charka* and *Khaddar* has given it a fresh lease of life.

Question 3.—*What, in your opinion, are the chief hindrances to industrialism in our country? How can you avoid the evils of the latter-day industrialism of the West?*

Answer—The chief hindrances to Industrialism.

(1) Self-reliance and individual efforts are rare in India. The Indian people are more prone to confine themselves to the beaten track than to share the risks and responsibilities of a new walk of life. In addition to this, *a course of over-literary education is making the intelligent section of the people averse to industrial pursuits. The aristocracy of India is indolent, a class which brought economic salvation to many industrially developed countries. The commoners are still more handicapped, because they have no facilities to train themselves for a successful business career.*

(2) *The apathy of the Government* is another great hindrance to the industrialism of India. During the early British rule, Indian industries were considered as serious rivals of English enterprises. The English Government felt shy of the Indian competition and constructed a tariff wall to prohibit the entry of Indian products into England. The officers of the East India Company positively discouraged the production of those goods in India which had the possibility of standing in the way of the growth of English manufactures. Indian industries suffered active persecution both at home and abroad. Later on, this policy was replaced by one of *laissez faire*, or non-interference. Indian industries were left to their own fate while their rivals in other parts of the world received State protection and support. Only recently there has been a slight modification in the government attitude. What is wanted is help and encouragement,—direct and whole-hearted. Unless

that is promised and freely given, the infant industrialism of India has little chance to stand successfully against the competition of the foreigners who produce under the economies of large-scale production and are supported by highly efficient and scientifically skilled labour, abundant capital, remarkable business ability and world-wide market.

These are precisely the matters in which Indian industrialism lags hopelessly behind the industrialism of the West.

(3) *Indian labour is generally inefficient and mostly unskilled.*

(4) The supply of capital is insufficient for financing Indian industries.

(5) *Entrepreneurship*, organising power, managerial ability are not yet sufficiently plentiful in India.

Happily, these difficulties are not insurmountable.

How India can avoid the evils of the latter-day industrialism : —

The Indian industrial organisation is being profoundly affected by its coming into contact with the methods of Western industrialism ; but its evolution will on the whole naturally be circumscribed by the environment, both physical and psychological, the socio-economic traditions of Indian life, thought and experience.

Thus India is not ready to accept the too exclusive adherence to the principle of division of labour. India stands for integration and co-ordination rather than for separation and differentiation. India will have specialisation but should not allow specialisation to overstep its limits.

Modern industrial society has created a sharp distinction between the urban and the rural population, between producers and consumers, between specialists and ordinary men. *India should not allow the city to exploit the village*, will not suck out the blood of one part of society to feed another part.

The excessive centralisation of industry into big towns and its control by a few capitalists—characteristics of Western industrialism—have their warning lessons for India, and India should prevent that centralisation as far as possible. Where such centralisation is inevitable, India should not dehumanise

labourers. Variety of occupation should be encouraged. Home and family life will be maintained and social recreations promoted.

Cottage industries should be fostered in India. Village life will again develop and the fellow feeling and communistic ideas of the past would make their appearance.

What Western society is in need of is a *constructive social idealism*. Individual initiative, genius and enterprise are the source of all social progress. It is a formative element in society, but at the same time its excesses have to be smoothed down by an ennobling idealism. The due maintenance of individual liberty and the subordination of individual needs to social welfare should be the objective of a scheme for social regeneration. India is already in possession of such a social idealism. That ought to help the people of India in solving many acute industrial problems.

Or Characterise the principal types of land tenure in India and indicate the economic bearings of each.

Answer.—Three types of land tenure are found in India.—

(1) *The Permanent Zamindari Settlement* exists in nearly whole of Bengal, the Benâres Division of the U. P. and the north-eastern parts of Madras. The settlement was made with the *Zamindars*. The land revenue of the zamindars has been fixed by the Government in perpetuity and the Zamindars can enhance rents payable by tenants only under certain circumstances. *The Permanent Settlement and the later enactments* in continuation of it, (1) have secured the government a minimum land revenue, (2) have created a class of wealthy landlords and (3) have safeguarded the rights and heightened the prosperity of the tenants. But *the Permanent Settlement has failed in certain other directions*—a fact which prevented its extension over the whole of India.

See Ans. to Question 1, 1918.

(2) *The Mahalwari or Village Settlement* is found in the U.P., the Punjab and the C.P. The revenue is settled for a limited period from 20 to 30 years, with the entire body of villagers who are jointly and separately responsible for the revenue of the whole village or with some middlemen. If the proprietors are numerous, agreements are entered into only

with a few who are called *lambardars*. This form of settlement is a relic of the old system of communal ownership of land. The responsibility for the regular payment of land revenue is shouldered by the whole body of villagers. *Mahalwari* tenure has all the merits and drawbacks of common possession.

(3) The *Ryotwari* settlement prevails in Bombay, Sind, Madras and some other parts of India. Under this system the Government deals directly with the individual tenants and recognises no intermediary. The right of occupancy can be inherited and transferred. Generally the period for which settlement is made is rather short and the cultivators do not find sufficient inducement to improve the land. This defect will be remedied if settlements are made for longer periods.

See Ans. to Question 1, 1918.

Question 4.—*Discuss the comparative importance of railways and waterways in India. What are the economic effects of the decline of waterways in Bengal ?*

Answer.—**Comparative importance of railways and waterways.**

(1) *Railways and waterways are both held to be protective against famines.* It is argued that waterways are a better remedy than railways because while railways only distribute the produce, waterways (through irrigation) directly increase the agricultural produce from the land. Railways cannot supply water when land is thirsty and hard-baked or provide drainage for preventing floods. This criticism of railways is largely true, but when the question is one of rapidity of transportation, the usefulness of railways becomes at once apparent. Railways again encourage production of crops, etc., by 'making trade.'

(2) *The strategical and military value of railways cannot be lost sight of.* The presence of a large number of troops is often required in the border provinces of India for the purposes of attack or defence. Railways alone can carry them swiftly to the field of action and minister properly to their needs and requirements.

Some good features of railways.

Waterways are a gift of nature. This very fact places them under a great handicap. In some provinces they are very

abundant, in others equally scarce. They are subject to the freaks of seasons. During certain months they are easily navigable, for the rest of the year they are useless for that purpose. Railways do not work under these limitations. The construction of a network of railways has connected all the important places of this country and has made regular and rapid transportation an easy affair. *Railways have enabled the surplus population in congested areas to move to the more sparsely populated parts of the country. They have equalised prices of agricultural produce and made the imports available at a cheaper rate. They have opened big markets for Indian products and facilitated modern development of manufactures in India by making coal and other requisites of production cheap.*

Some undesirable features of present Indian railway policy.

There are some Indian economists who do not look upon the extension of railways as an unmixed blessing. Their *bad construction has interfered injuriously with the drainage of the country, has spread Malaria and has ruined the health of the people. By thrusting foreign goods on us, they (railways) have killed out indigenous industries in India and made the nation more helpless than before by increasing its dependence on agriculture. A change in the railway policy is being witnessed in the recent years which will help, and not hinder, the cause of Indian industries.*

The relative merits of railways and waterways have often been the subject of discussion, but the claims which may be made on behalf of either are not conflicting. They do not supplant but supplement one another. Throughout Europe the canals and waterways are now looked upon as a necessary supplement to railways. It is in Germany that this principle has found the most vigorous expression, and it is said that in that country the new maxim is not "railways or canals" but "railways and canals."

Economic effects of the decline of waterways in Bengal—

The waterways form very important means of communication in the province of Bengal. Even now though the railways have stolen much of the traffic of the Ganges, (with its tributaries) the Ganges still carries more boat traffic than any other river in

the world except the Yangtsekiang. In many districts imports by river are found much in excess of those by rail and by road.

(1) Recently the railway development is interfering greatly with this easy means of water transport throughout the province. The craft tonnage has shrunk a great deal. Even the bulky goods are being carried by railways. Such a tendency is fraught with grave economic disadvantages. Many of the rivers, again, are becoming choked and unfit as perennial means of communication, thus further helping the process of gradual extinction of the river traffic. The river beds are becoming shallow. The boats have to travel slowly, so the cost of transport is increased. Thus *the decline of the rivers has been accompanied by a serious falling off of the traffic and a decline in the efficiency of the transport industry.*

(2) Previously, during the rainy season, swollen rivers used to spread over and drown fields under cultivation. The water was sure to subside within a few months but the silt that was thus left, used to enrich the soil ; with the decline of waterways, the soil has been robbed of this natural manure. *Waterways were helpful to agriculture from three points of view, i.e. irrigation, manuring and transport. Their decline would seriously damage the cultivation of Bengal.*

Question 5.—*Examine briefly the institutions of the joint family and the caste, discuss fully their economic effects.*

Give your own plans for the rehabilitation of the village system that is based on these.

Answer—Joint family and the caste—their economic effects

The Joint family.

"In India, the unit of society is not the individual but the family. Among the Hindus, this family includes not only the husband, the wife, and the children, but many more members besides. The essential feature of the system is that the consumption of goods is common, and every member of a family shares in the prosperity and adversity of every other member."

Viewed from an economic standpoint, joint family system appears to have merits as well as defects.

Merits.

(1) *The chief merit lies in the fact that almost every one can be sure of a bare subsistence, which is the first condition of economic advancement. The children, the aged, the weak and the infirm are taken care of and not left on the uncertain charities of some private institution or the state.* (2) *The system fosters a spirit of self-sacrifice and glorifies the ideas of service before self.*

Defects.

On the other hand, it should be noted that when livelihood is secured without any effort on a man's own part, he loses the great incentive to work, and is apt to become lazy and dependent on others (1) *Self-reliance—the great virtue without which no economic progress is conceivable—is thus discouraged.* (2) *Moreover, the burden of a large family makes a man afraid to shoulder risks and unwilling to launch on new projects. He is thus in a manner prevented from making the best use of his capacities.*

Caste.

Caste is the family magnified. *The essential feature of the caste system is that "birth determines irrevocably the whole course of a man's social and domestic relations, and he must through life eat, drink, dress, marry, and give in marriage in accordance with the usage of the community into which he was born."*

The economic significance of the caste system is that it fixes absolutely the supply of any kind of labour.

Defects.

(1) *The scope given for the play of competition thus becomes restricted. Wages and prices have very often to be regulated by custom or some other artificial means. Under the caste system the people lose their adaptability to changed circumstances.* (2) *Again where birth determines the whole course of a man's occupation, there is little chance of his capacities being put to the best use.*

The result is great economic loss.

Merits.

(1) But the compensatory advantage of the caste-system comes from the fact that every man inherits a certain amount of technical skill from his ancestor and imbibes, without any effort much of the technical knowledge from the environments in which he is brought up. (2) Another great merit of the system is that by limiting the influence of competition it serves as the protector of the weak.

Plan for the rehabilitation of the village system.

Recent growth of individualistic tendencies has threatened the unity and stability of joint families. The joint-family system has lost its economic efficacy and lofty moral ideal. Stagnation and idleness are being encouraged at the expense of economic progress. In spite of these obvious defects the system has many excellent characteristics. If each member of a joint family fully understands his joint responsibility and trains himself to discharge his share of duties properly, in short, if the joint-family system undergoes a process of re-orientation, and reconstruction, it will immensely help the cause of rural reconstruction of India.

Caste will hold no such place of honour (as the joint-family) in the rejuvenated and reconstructed Indian village of to-morrow. It is ill-suited to large scale production in which minute subdivision of labour is essential and which requires the supply of any kind of labour immediately to respond to the demand for it. A rigid caste system is again a cause of the political enslavement of the people. It has divided the society into so many water-tight compartments having no sympathy with one another. Each section is ready to decry the rest, none feels the throb of a common pulse. The question of Brahmins versus non-Brahmins, the problem of untouchability have all at their bottom the rigidity of the caste system.

Question 6.—Write a short historical account of the tenancy legislation in Bengal.

Answer.—The fluctuating character of land revenue and some other considerations made Lord Cornwallis enter into a Permanent Settlement with the Zamindars of Bengal in 1793. By it, the government land revenue to be taken from the Zamindars

was fixed in perpetuity (i.e. for ever) and the regularity of its payment into the public treasury was ensured.

The *Zamindars* on their part did not issue any *Patta* or document specifying the area and conditions of holding to their tenants. The tenants, on the other hand, could not grasp the importance of the *Pattas*. The result was a prolonged struggle between the two parties. The *Zamindars* oppressed the *ryots* while the latter refused to pay rent. As a consequence many old estates were sold for default of payment of revenue. The East India Company agreed to strengthen the hands of the *Zamindars* and passed Regulation 7 of 1799, better known as *Haftam*. By it, the landlords were empowered to seize without any legal procedure, the crops, the grain, cattle and all other personal property of the *ryot*. This Regulation was not meant to curtail any right of the tenant. It was only enacted to enable proprietors of land to realise their rents from the tenants with greater punctuality.

When the evil effects of the Regulation became known, there was a strong revulsion of feeling which produced Regulation 5 of 1812 (the *Panjam*). The preamble to this Regulation is somewhat in the nature of an indictment against *Zamindars*. It was enacted that the *Zamindars* were bound to serve their tenants with a written demand specifying the precise amount of their arrears. The tenants were also empowered to seek redress in law-courts. But this provision was clogged with formalities, and in practice, was inoperative. Up to the middle of the 19th century, the *Zamindars* exercised a great authority over the *ryots*. All legislation of this period, dealing with landlord and tenant, had one primary object, viz., the security of the public revenue.

Tenancy legislation in Bengal for the protection of tenants.

(1) Act of 1859.—Lord Canning passed the *Bengal Rent Act, the charter of Bengal cultivators*, in 1859. For those who had held land at the same rent since 1793 or for twenty years, it declared that the rental should remain unaltered for all time to come. To those cultivators who had held the land for twelve years the *right of occupancy* was granted (fixity of tenure was ensured) and their rent could not be raised except on some

specific and reasonable grounds, such as an increase in the rate in the neighbourhood; etc.

The principal defect of Act 10 of 1859 was that it placed the right of occupancy which it recognised in the tenant and the right of enhancement which it recognised in the landlord, on a precarious footing. If professed to give the *ryot* a right which he could not prove and the landlord one which he could not enforce.

(2) **Act of 1885.**—So in 1885, the *Bengal Tenancy Act* was passed which removed the above mentioned defects. The Act recognised *two kinds of tenancies*, occupancy and non-occupancy, and secured the status and privilege of all kinds of tenants. By the Act, every *ryot* who has held any land in a village for twelve years acquires thereby a *right of occupancy*. The occupancy as well as non occupancy tenants can be *ejected* for arrears but the ejection must be by notice or suit and the procedure must follow the course of law and arrears are always to be received through the court. The rents also cannot be raised at shorter intervals than fifteen years and only under certain conditions. All tenants are authorised by the Act to appeal for decision to law-courts for *every enhancement of rent*. The Act of 1885 fully defined and determined the relations between the landlords and the tenants and it stands even to-day with certain minor modifications.

Or,

Write a short historical account of the development of Indian mill industry.

Answer.—*The most outstanding feature of the economic transition of India in the last century is the change from a purely agricultural stage to a steadily increasing manufacturing stage.* In the census of 1871 practically the whole population—with the exception of those engaged in the public service and those carrying on some learned professions—was returned as dependent on agriculture. In 1911, as the following table shows, there was a considerable growth of industrial population—

Total population	...	315,156,896
1. People engaged in the production of raw material	...	227,030,092 or 72 p. c.

2. People engaged in the preparation and supply of material substances ... 58,191,121 or 18 p. c.

A part of the population belonging to the second category is employed in the mills. The following table shows the growth of machinery in one industry alone.

Cotton Industry.

Year	No. of mills	Spindles	Looms
1897	173	4,065,618	37,584
1915	272	6,848,744	108,009

The produce of these mills is now able to hold its own against foreign goods in quality ; but the quantity locally produced in the Indian mills falls short of what is needed to clothe the entire population of India. (a) Part of the goods required to clothe the Indian population is produced by handlooms in India and (b) part is imported from foreign countries, chiefly from England.

Again, entirely new mill industries have risen within the last half century, such as jute or iron and steel industry. The jute industry alone had nearly 31 times as many mills in 1915 as compared to 1880, employed six times the capital of 1880, and placed 22 times the produce of 1880 in the market in 1915.

The total number of factories worked by mechanical power was 2536 in 1911. A classified list of the more important among them is given below :—

Cotton mills	...	...	...	235
Cotton presses	...	...	...	1166
Jute mills	...	...	...	60
Jute presses	...	...	...	115
Woollen mills	...	...	...	4
Paper mills	...	...	...	8
Arms and ammunition factories (Government)	...	...	...	16
Dockyards	...	...	...	23
Iron and brass foundries	...	...	...	85
Railway workshops and factories	...	...	...	59
Rice mills	...	...	...	219

Flour mills	...	...	...	38
Sugar factories	...	...	...	25

The above figures indicate that some advance has been made in the direction of industrial regeneration. But the value of the achievement should not be exaggerated, as it is nothing in comparison to the change that has taken place in countries like the United Kingdom.

Question 7.—Analyse the Home Charges.

Describe the method by which the Home Charges are paid by India to England.

Answer.—See Ans. to Q. 7, 1913 and Q. 2, 1917.⁵⁵

Question 8.—What is the Gold Standard Reserve?

Give reasons for and against the keeping of this reserve in London.

Answer.—Object of the Gold Standard Reserve.

The object of the Gold Standard Reserve is to maintain the Gold-exchange Standard and to check great fluctuations in the value of the rupee as regards foreign payments. For this, two things are necessary:

Firstly, that importers of gold into India should obtain rupees for their gold; and—

Secondly, that when gold is required for the purpose of remittance from India to foreign countries, the exporters should be able to get gold in exchange for silver. To ensure this, the Government sells and buys rupees in India and in London at the rate of 1s. 4d. per rupee *plus* or *minus*, as the case may be, the approximate cost of transport.

And for these transactions, a Reserve (the Gold Standard Reserve) is kept partly in London and partly in India.

Source of the Gold Standard Reserve.

In compliance with a recommendation made by the Fowler Committee it was decided that, with effect from the 1st of April, 1900, the net profit from the coinage of rupees should not be treated as revenue, but should be held as a special reserve, viz. the Gold Standard Reserve. The interest realised from the

invested funds of the Gold Standard Reserve is added to the funds of the Gold Standard Reserve (In 1907-08 and 1908-09, in consequence of a change in the policy, half the profits on coinage were to be applied to capital expenditure on railways, and about £ 1,100,000 was actually diverted for that purpose ; but this decision was soon annulled.)

Form or composition of the Gold Standard Reserve.

On the 31st March, 1913, the Reserve was compared as follows :—

I. *The branch of the Indian Gold Standard Reserve in England.*

			Crore (about).
(a) Securities (at market value)	...	£ 15,945,669 = Rs. 24	
(b) Money lent at short notice	...	£ 1,005,664 = Rs. 1½	
(c) Gold deposited at the Bank of England	...	£. 1,620,000 = Rs. 2½	
II. <i>The branch of the Indian Gold Standard Reserve in India.</i>			
Silver in Indian Branch	...	£ 4,000,000 = Rs. 6	
<hr/>			
Total	...	£ 22,571,331, = Rs. 34	

The silver branch of the 'Gold Standard Reserve has been discontinued for some years. After the War, the Reserve is *now* held practically wholly in securities with a very small amount of 'cash at the Bank of England.'

The Gold Standard Reserve on March 31, 1923.

In England—

Estimated value of sterling securities	...	£ 40,043,831
Cash at the Bank of England	...	£ 3,658
<hr/>		
Total	...	£ 40,047,489

Objections to the holding (the location) of the Reserve in London.

The location of the Gold Standard Reserve in London has given rise to much criticism.

(1) It has been pointed out that the *whole of the Reserve should be held in India and not in London, in order to prevent India's financial interests from being sacrificed and jeopardised in*

the event of a monetary crisis in England. The usual reply to this suggestion has been that the necessity for the use of the Reserve will arise in London, and it would involve the expenses of frequent transfers to hold it in India.

(2) Another objection is to the lending of considerable sums out of the Reserve to borrowers in London. If any portion of the Reserve can be safely lent, the Reserve (being India's money) should be lent in India for developing Indian industry and trade.

Question 9.—*Examine briefly the limits and direction of state action with regard to the development of manufacturing industries in India.*

Answer :—The main difficulties which the Indian industrialists have to contend with are—

- (a) The want of capital
- (b) Uncertainty as to the quality and quantity of raw material
- (c) The outlay on the training of labour
- (d) The suspicions with which country-made articles are looked upon in India.
- (e) When success is attained, rival enterprises are at once started, trained labour is enticed away and the cost of material rises.
- (f) The competition of imported foreign goods.

As regards *cottage industries* special efforts should be made to help them in the following directions—

- (i) Supply of cheap capital to the cottage industries by co-operative and other organisations
- (ii) Peripatetic working parties should be sent out to teach improved methods to artisans.
- (iii) The artisans should be supplied with new patterns and designs.
- (iv) Where considerable colonies of these people exist, small auxiliary factories employing machinery should be erected to assist them.
- (v) In towns and cities where there is a public electricity supply, the use of electric motors for driving small machines should be encouraged.

(vi) Better methods of marketing the produces of cottage industries should be provided.

(vii) Also where necessary, some measure of protection against the imported foreign goods.

Then we come to the problem of helping *large organised industries*.

(1) *The Government may help the industrialists in obtaining land for the sites of factories.* Sometimes land belongs to a large number of small owners and one of them might decline to sell ; in other cases, land-owners exploit unduly the necessities of industrialists. Hence, the Government should acquire land on behalf of an industrial concern when the development of the industry is in the interests of the general public

(2) *Sometimes the Government might go into "pioneering" i.e.* the beginning of an enterprise on a small commercial scale in order to ascertain and overcome the initial difficulties and discover if the industry can be worked at a profit.

(3) The Government can conduct preliminary *investigations regarding the raw materials available*, the conditions under which the industry may be carried on and the markets open to its products.

(4) *The supply of technical advice* in regard to the location of the factories, the design of the building, the arrangements for water-supply and *the selection of the machinery.*

(5) The Government can encourage and foster the growth of *industrial banks* which will extend financial help to the industries.

(6) The Government can help by purchasing its requirements as far as possible from the out-put of Indian industries, thus giving a preference to them.

(7) Also where necessary, the Government can help by protecting Indian industries by 'scientific' discriminating protection against foreign competition.

Coming to a consideration of *industries of national importance*, other methods have to be employed—

(a) The Government might maintain factories for the manufacture of military supplies and might exercise some degree

of control over private factories upon which dependence will be placed for the supply of military necessities.

(b) In most cases this could be secured in return for *guarantees* to take over a definite portion of the out-put.

(c) There will be cases, however, in which the expense of production will always exceed the cost at which articles of similar quality can be imported, and in such cases the industry can only be maintained by the *grant of direct financial assistance*.

Or, Examine briefly the methods and organisation of agricultural and industrial co-operation in India.

Answer :—

See Ans. to Q. 4 and 8, 1917.

" " " Q. 5, 1918.

" " " Q. 5, 1919.

Co-operation and agriculture—

(1) Co-operative purchase of agricultural requirements—seed, manure and implements

(2) Co-operative consolidation of holdings

(3) Co-operative irrigation

(4) Co-operative farming

(5) Co-operative sale or marketing of agricultural produce

(6) Co-operative cattle-breeding, cattle-rearing and cattle insurance

(7) Co-operative credit

Co-operation and Industries—

(1) Co-operative production

(2) Co-operative purchase of raw materials and sale of finished products

(3) Provision of cash loans at reasonable rates of interest for the purchase of tools or materials, for livelihood during the slack season and for necessary ceremonial, social and domestic expenses

(4) Provision for aid in the shape of expert advice, technical training, demonstration exhibitions, etc.

(5) Co-operative housing of workers

(6) Co-operative banks to give financial assistance to industries.

Question 10. *The social conditions of labour and life in the city factory and the crowded bustee have serious effects detrimental to health and efficiency.—Elucidate.*

What methods would you suggest for the improvement of the efficiency of Indian Mill labour ?

Answer:—A notable peculiarity that strikes one in large industrial areas, such as Bombay and Calcutta, is *the difficulty that confronts a man who wishes to continue the family life to which he has been accustomed.* So great are the initial difficulties that many a man has to decide from the start to leave his family behind him. If his wife and son do accompany him, there is no person to see whether it is possible for the entire family to obtain employment at the same mill. In Bengal there is a complicated shift system in force which adds still further to the difficulties of family life. The number of shifts makes it difficult for the members of a family to have the same hours.

The excessive overcrowding which, generally speaking, factory workers have to endure has an even more injurious effect on the family life. Town-life cannot but have a very disintegrating effect on it, for when a man does bring his family with him they have almost invariably to live crowded up with other families and all hope of *privacy disappears.* Seclusion is impossible in a crowded *chawl* in Bombay or a *bustee* in the Calcutta suburbs.

Another serious feature of factory life is its *effect on health.* Very frequently the workers have to live congested together in insanitary dwellings. The Census Report for 1911 gave the number of persons per square mile in the following towns:—

Bombay	...	...	...	42,585
Calcutta with its suburbs	...	...	...	24,841
Howrah	...	...	...	20,985
Cawnpore	...	...	...	18,260

The factory workers in the cities do not enjoy the full advantage of an efficient drainage system, a good water supply and a large staff of sanitary inspectors. The consequence is that while the death rate in England for the total civilian population per 1000 living was 12·4 in 1920, it was 30·84 in India. Similarly, while the infantile mortality was 80 per thousand births in England, it was 556 in Bombay city, 386 in Calcutta and 282 in Madras.

Absence of educational facilities, lack of healthy means of recreation, the presence of grog shops and other temptations tell injuriously upon the morals, health and efficiency of the labouring population. Steps should immediately be taken towards the amelioration of the condition of the working classes.

7 Methods suggested for the improvement of the efficiency of Indian Mill labour—

The State, employers, labour and social agencies are concerned with these problems.

I. The State.

Besides (1) *passing legislation to enforce certain minimum standards* in respect of maternity benefits, factory inspection, mines inspection, workmen's compensation, arbitration and conciliation, etc., (2) *the State should encourage the voluntary provision of welfare work in mills and factories.*

The inferior physique of the people and the terrible ravages caused by epidemics make the provision of *medical aid* an urgent necessity in India. The State therefore needs to take in hand measures to improve the health of the general population. The poor physique and limited energy of the industrial worker in India are largely the result of his poor diet. Much can be done by the State and local authorities not merely by facilitating the provision of *good food* but by research and propaganda with regard to suitable articles of diet, etc. The State may see that *co-operative stores* are established from which the factory hand may buy their daily provisions. The provision of *adult education* is also an imperative need. Not until all factory employees have opportunities for education can much be hoped for in the way of industrial advance. Closely allied to the provision of *general education* is the question of *technical education* for industrial workers. *Some of the causes of inefficiency will be surely remedied by the availability of technical instruction.*

Undoubtedly one of the most urgent problems connected with the health, well-being and general efficiency of industrial workers, which the State may look after, is the provision of *suitable housing*.

II. The employers,

Factory employers have been slow to introduce what may be designated as 'welfare schemes' within the factories. They

should pay more attention to medical aid, compensation for accidents, sick and maternity benefits, crèches for factory children and education of factory workers.

They should provide amenities of life for their workers. Libraries and reading rooms, literary and debating societies should be started. Recreation should not be neglected. Sports and excursions should be arranged. Cinema shows and dramatic performances should be held to amuse and educate the workers.

III. *The labourers.*

The *labourers* themselves can improve their lot by organising themselves and forming *strong trade unions* to protect their own economic interests, as regards wages, conditions of work, etc.

Mass education, medical relief and the encouragement of co-operative societies are among the chief objects of *social agencies*. They can do a great deal for the betterment of the industrial classes in these directions.

Or,

Discuss fully the defects and difficulties of Indian agriculture.

What methods would you suggest for its improvement?

Answer :—Defects and Difficulties.

(a) A large proportion of the *soil of the country is seriously decreasing in fertility*, is already suffering from starvation or is approaching the state. The supply of indigenous manurial products is being sent out of the country at an increasing rate, with the result that the price is now prohibitive to the small cultivator.

(b) There has been an *undue fragmentation of land and creation of uneconomic holdings* in consequence of the law of inheritance and partition. Cultivation of small fields (perhaps scattered throughout different parts of the village) by the individual cultivator involves a great waste of time and energy.

(c) *Agricultural capital* which consists of live-stock, implements and utensils, seed, fodder, etc., is *frightfully small and meagre in India*. The average Indian agriculturist has little capital and credit, and he is often heavily in debt to the village mahajan. This seriously checks the progress of Indian agriculture.

(d) There are *great disadvantages as to marketing agricultural products*, as is indicated by the very heavy fall of prices at

harvest time. Usually, advances are made against crops at the rate of 10 to 18 p. c. and the sale has to be performed through *mahajan*. Then again, on account of bad organisation, many transactions intervene before the final sale takes place.

Methods suggested for the improvement—

(a) Limitation of export of indigenous manures will meet the first difficulty. Production of synthetic nitrogenous manures, capable of being fully utilised by poor Indian cultivators, should be encouraged.

(b) The following remedies against undue fragmentation of land can be suggested—

(i) Co-operative consolidation of holdings

(ii) Prevention of fragmentation through land-mortgage banks

(iii) Improvement in the law of inheritance and partition.

(iv) Formation and demonstration of the efficacy of ideal villages and economic holdings by the state.

(c) & (d) For better provision of agricultural capital and marketing of agricultural products—see Ans. to Q. 4, and 8, 1917.

" " " Q. 2, 1918.
" " " Q. 9, 1920.

Question 11.—*Analyse India's exports and imports. Hence examine the arguments for and against Protection.*

Answer.—**India's exports and imports.** *The chief items of India's imports are manufactured goods like cotton and woollen manufacture, manufactured silk, metals (iron, steel and copper manufactures), railway materials, machinery and mill work, hardware and cutlery, instruments and apparatus, sugar and salt. Of these cotton goods, metals and sugar are the most important. Among the minor imports, glassware, paper, chemicals, coal, etc., are worthy of mention.*

The list of India's exports mainly includes food-stuffs like rice, wheat, etc., raw materials such as cotton, jute, seed (for oil), hides, wool. Manufactures like jute goods, cotton goods, oils, are also exported.

A cursory glance at the foreign trade returns of India brings home to the mind of the observer the significant fact that:

the greater part of Indian imports consists of manufactured goods, while food stuffs and raw materials constitute much the greater part of Indian exports. This is an unnatural state of things, and its consequences are extremely harmful.

The great majority of Indian writers are hopeful of witnessing the growth of big industries and manufactures in this country. They build their expectations on the example of the U S. A. which had long been regarded as a producer of raw materials, but having utilised her resources, she stands as the foremost manufacturing country at the present day. India can likewise tap the raw materials at her disposal and develop those industries for which she possesses natural facilities. India by developing her own manufactures will be less dependent on the imported foreign manufactures and her developing manufactures will enable India to use more of her own raw materials—India will thus gain greatly in wealth and productive efficiency. And for this India should adopt a policy of 'scientific' discriminating protection to protect her rising young industries against foreign competition. India is immensely rich in raw materials.

The arguments against Protection and for Free Trade.

It has been asserted, that as in every particular exchange there is necessarily a gain to each of the parties concerned, the sum-total of such exchanges should be allowed to attain the maximum volume so as to yield a maximum satisfaction to consumers. *Prima facie international trade brings a gain and any restriction on it presumably a loss. From these axioms is deduced the practical rule of free trade that all efforts to direct the productive forces of the country in any particular direction artificially shall be given up.*

The arguments for Protection.

(a) The infant industry argument for protection.

The unfulfilled assumptions and the unemphasised qualifications of free trade form the armoury of protection. Even such an ardent supporter of Free Trade as Mill admitted that in the "*infancy stage of an industry, protection is useful*". Free trade means competition among the industries of different countries and when such industries are on a footing of equality, it helps to make each of them stronger, but when the struggle is between a strong industry of one country and a weak industry

of another country, the weak is sure to be pushed out of the field unless it is backed up by the state. *The infant Indian industries which have been recently started, and those which are to be started in future will have no chance of success if they have to withstand the competition of the well developed and strong foreign industries. They require protection against the competition of foreign industries.* Protection will afford industries temporary shelter from the difficulties as regards supply of sufficient capital and trained labour, etc. which are likely to beset them at their infant stage.

The imposition of protection implies present loss, but the sacrifice is willingly made in the hope of a future gain which will far outweigh such loss. If help is extended to those industries which do not deserve protection, the whole community suffers for this error of judgment. *The Indian Fiscal Commission rightly recommended that in dealing with the claims for protection of a particular Indian industry, the nation must satisfy itself—*

- (i) that the industry possesses natural advantages
- (ii) that without the help of protection it is not likely to develop at all, or not so rapidly as is desirable ; and
- (iii) that it will eventually be able to face world competition without protection

(b) Diversification of industry argument—

Diversification of industries to be brought about by protection has been advocated in India on—

- (i) *Social grounds*—Variety of occupation makes possible the all-round development of the physical and mental faculties of a people, it brings about a rich, intense, organised and progressive social life.
- (ii) *Political grounds*—Diversification of industries within a country is also necessary for securing industrial self-sufficiency and the resulting political safety during times of war. There are many occupations which help to some extent in national defence, and a somewhat extended scheme of protection becomes necessary for countries which will be deprived of foreign supplies by a great war.

Or,

Examine the limits and direction of the use of foreign capital in India.

Answer.—See Ans. to Q. 9, 1917. p. 65.

1921.

Question 1.—*Describe the effects of monsoons on Indian agriculture*

Answer :—The whole of India lies within the belt of the northern trade-winds. Under normal conditions, therefore, one should expect the wind to blow from the north-east throughout the year. As a matter of fact, however, the north-east wind blows during only one-half of the year.

During the other half, the wind movement is modified because of the proximity of the continent of Asia to the Equator. This disturbance of the air current is due to the fact that land and water differ greatly in their behaviour regarding the absorption and radiation of heat. During summer land becomes very much hotter than the waters of the Indian Ocean. Consequently pressure becomes much lower in the region of land. The heated air rises and the cooler air from the Ocean rushes in to take its place. This air current is the *south west monsoon*. Being of oceanic origin, the wind is laden with moisture; and as the clouds are driven inland by storms, they drench the parched land of India with rains. *The south-west monsoon reaches India in two currents—the Arabian Sea current and the Bay of Bengal current. The former gives rain to Bombay, the Punjab, and a part of the Central Provinces and the latter to the rest of India and to Burma.*

In October and November, the temperature over the land in India becomes lower than that over the sea, consequently winds now begin to blow towards the sea. Being of land origin it does not contain much moisture, and is therefore called the dry monsoon, but the *north-east monsoon* picks up considerable amount of moisture during its passage over the Bay of Bengal and gives rain to the south eastern districts of Madras.

The success or failure of the crops is determined by the quantity, distribution and time of occurrence of the monsoon rains. In other countries, the variations in rainfall may increase or

diminish the abundance of a crop, but in India they produce far greater consequences. In one year rainfall may be so profuse, that harvests are plentiful, in another an almost total failure of the rains may lead to a severe famine involving the loss of innumerable lives.

But it is not agriculture alone that is affected by the monsoons ; agriculture being the main industry employing the vast majority of the Indian population, Indian trade and commerce are largely dependent upon agriculture and so upon the monsoons, while the finances of the Government of India have been described by a Finance Minister as a "gamble in rain." In fact, the prosperity of the country depends largely on the monsoons.

Question 2.—"*City India stands separate from rural India.*" Examine the significance of the above.

Answer.—(1) *Rural India.* The villager lives a simple, and in years of good harvest, a contented life. There is very little wealth in the village, but the evils of capitalism are also absent. The cultivator or artisan knows little of the comforts and luxuries of urban life and does not miss them. Until recently, each village constituted an industrial unit, of which the chief feature was its self-sufficiency. The services of the artisans, etc., used to be, and to a small extent still are, paid for in kind. In the village economy there was very little competition with the outside world, though within the village the motive of self-interest naturally prompted everybody to find the best advantage for himself. Wages and profits were governed by custom and are still comparatively fixed and inelastic. Division of labour is carried on to some extent but as division depends on the extent of the market it cannot be carried very far. Labour is still immobile ; and what little capital there is in the village is locked up in the land.

The self-sufficient, custom-regulated village in its pure old form is hardly to be found to-day in its entirety in any part of modern India. The economic conditions of the country, are now undergoing a more or less complete alteration and the village must necessarily change to keep pace with the march of events.

(2) *City India.* The impact of western civilization has greatly influenced the life in the city. *Price, wages, interest, profits are ruled in the city by competition, not custom.* Cities are connected.

with one another by water routes and railways. People freely come and stay there in response to demand for their services. They are large centres for business and trade. The products of the country assemble there from various directions and are sent out to foreign lands. The cities also import goods from other countries and distribute them throughout the length and breadth of India. Economic interdependence, thus, is a salient characteristic of the cities.

The cities have substituted *money exchange* in the place of barter and payment in kind. Some of them offer highly developed banking facilities. Another feature of Indian cities is *large-scale production and growth of factories*. The factories are built up and run on western lines—with large capital and under expert management. The socio-economic problems which are invariably associated with factory system, have made their appearance here. Overcrowding and insanitation, intemperance and demoralisation are all phases of the city life in India to-day.

The cities are well furnished with the apparatus of *modern comforts and luxury*. Tramways and motor cars, telephone and wireless, cinemas and theatres have made living complex as well as costly. In the villages, they are conspicuous by their absence. Thus a profound gulf of separation rolls between the villages and cities of India.

Question 3.—*Locate the chief mining industries of India. Examine the economic effects of the development of mineral industries by (a) European, and (b) Indian capital and enterprise.*

Answer :—

See Ans. to Q. 2, 1919. 92.

" " " Q. 1, 1920. 97

" " " Q. 9, 1917. 15

If the mineral resources of India are worked up by foreign capital and foreign enterprise (*i. e.* foreign management), the children of the country suffer a distinct loss. (1) The interest which the Indian people have to pay on the foreign capital goes outside India and into foreign countries, and (2) *the Indian people lose all profits* which are appropriated by the foreign management; and all higher wages are monopolised by foreigners.

(3) *Land for the purpose of agriculture is a perennial source of wealth, it goes on producing crops for thousands of years; mines contain a fixed stock of minerals and are thus exhaustible sources of national wealth.* So the exhaustion of Indian mines by European capital and enterprise not only leads to the appropriation of interest and profit by foreign management leaving only coolies' and clerks' wages to Indians in the present generation, but such *exhaustion of Indian mineral resources by foreign capital and foreign enterprise means a great injustice to future generations of Indians* who will find themselves sadly deficient in mineral resources even though they may have the required capital and enterprise to work them. Foreign capital used to grow tea in Assam is certainly different from foreign capital used to exhaust the coal-mines in Jherria or the petroleum fields in Burmah.

Japan has already passed measures restricting the use of foreign capital and enterprise in developing the mining industries. It is high time that India should follow suit. The conservation of natural resources for the future of the nation is of deeper importance to a people than the quick development of mines and industries.

Question 4.—*Mention the economic effects of the recent rise of prices in India.*

Answer.—According to the census of 1911, 217 millions, that is 72 per cent. of the population of India, are engaged in pasture and agriculture. But this number embraces classes who are differently affected by the rise in prices.

(A) *Of 167 million cultivators of their own or rented land, those who have a surplus for sale would ordinarily benefit by a rise in the price of the commodities they produce, but even these—and perhaps their position is the most favourable—have had to contend with the large increase in the price of imported articles, notably cotton piece-goods and other necessities of life. On the other hand, the agriculturist who has little surplus produce to sell and lives on what he produces, would, in so far as he maintains himself on his own produce, be unaffected by a rise in the price of food-stuffs, and he would have only a small profit to set against the heavy rise in the cost of the articles he has to buy.*

(b) The numerous class of *farm servants and field labourers*, estimated in the census of 1911 at over 41 millions would *ordinarily stand to lose by a rise in prices, except in so far as their wages are payable in kind and not in money.*

(c) *The large class of persons with more or less fixed incomes, which would include persons living on rents, Government servants, professional men, and pensioners, have suffered severely from the rise in prices of the commodities they require, and the urban population who are not producers may be placed in the same category.*

(d) *Industrial wage-earners, labourers and domestic servants have, as a result of increased demands for their services during the War, been able to obtain increased wages. But their wages generally in India have advanced more slowly than prices, and so they have suffered greatly by the rise in prices.*

Question 5—*Mention the measures which may conduce to the improvement of Indian handicrafts and cottage industries under present conditions.*

Answer.—See Ans. to Q. 9, 1920. 114

Question 6.—*What portion of Bengal can you term the industrial zone and why?*

Answer.—See Ans. to Q. 1 (a), 1920. 17

Within the industrial zone the following things are witnessed :—

(a) The factory system with its elaborate application of machinery, division of labour and large-scale production.

(b) A class of capitalist employers and a multitude of labouring population dependent upon them for employment.

(c) Concentration of industries in those sites which afforded facilities for power.

Question 7.—*Classify the main types of land revenue settlement. Note the effects of each type on the Indian village system.*

Answer.—See Ans. to Q. 3, 1920.

Question 8.—*Describe the scope of co-operation in the fields of Indian agriculture.*

Answer :—

See Ans. to Q. 4, 1917, 57
 „ „ to Q. 9, and 10, 1920. 114, 117

✱ **Question 9.**—*Show the main features of our recent currency situation.*

Answer.—The balance of trade during the period of War became favourable to India. In addition to this, other causes contributed to swell this balance, and as this factor began to operate upon the foreign exchange, the whole currency system with which the Indian exchange is irretrievably connected seemed almost to break down.

Rise in the Indian rate of exchange.

(1) In the first place, exports from India increased heavily due to the demand for Indian products by allied powers (e. g., Britain, France, etc.). On the other hand, the imports into India decreased heavily due to the fact that Britain and other countries engaged in the life-and-death struggle of the War could not manufacture and send their commodities in the usual quantities to India. This excess of Indian exports over imports created a large demand for Council Bills and other bills on India and raised the rate of exchange for the rupee. The excess of Indian exports over Indian imports created a balance in favour of India and India had to be paid.

(2) In the second place, India spent much on behalf of England and her allies in connection with war supplies, munitions, etc. These expenditures gave India a corresponding credit in London. The difficulty was to convert this credit into remittances to India, for gold was unobtainable and silver was exceedingly scarce. India had to be paid on this account also.

But currency was to be created, anyhow, to meet the above demands. To issue fiduciary notes was impossible as it would violate both law and custom. To coin India's relatively small reserve of gold would have been not only wasteful but also ineffective. The only alternative was to provide silver rupees in large quantities.

(3) The decreased supply of silver (because of civil war in Mexico, and speculative operations in the United States, the two great silver-producing countries) coupled with a great rise in its

demand had the effect of raising its price greatly. *This heavy rise in the price of silver brought about a heavy rise in the exchange value of the rupee (i. e. the rate at which the Secretary of State for India sells Council Bills).* From the beginning of 1916, silver began to break away from its old pre-war level of about 26d. an oz. As it rose, exchange was forced to leave the standard rate of 1s. 4d. to the rupee and gradually rose further also. *The high water-mark reached by exchange was about 3s. to the rupee.*

Fall in the Indian rate of exchange (1920—)

But the year 1920 brought with it a contrary state of things. (1) The importation of very large quantities of manufactured imports into India, and (2) the decrease of Indian exports due to the failure of Indian monsoons, and also due to the economic collapse of Europe and its inability to purchase India's products led to a great reversal of things. The exchange began to take a rapid downward course.

The Babington-Smith Currency Committee (1919—)

In 1919, the Babington-Smith Committee was appointed to report upon the currency situation. *It recommended the establishment of the ratio of exchange at 2 shillings to the rupee.* In spite of all the efforts of the Government to maintain the exchange at the proposed level, it fell heavily and settled in the region of 1s. 4d. again. It is contemplated to appoint another Currency Commission to take stock of the present situation.

Questions 10. *State the probable advantages and disadvantages of the inclusion of India in a scheme of Imperial Preferential Tariff.*

Answer.—*Imperial Preference implies preference (or concession) in economic matters as between different parts of the British Empire—under Imperial preference a country within the British Empire is to levy lower taxes upon commodities coming from another part of the British Empire but to levy higher taxes upon the same commodities imported from foreign countries.*

Imperial Preference signifies that a more or less protective duty should be imposed by each colony of the British Empire

and by England on foreign imports, but that a preference will be given in the form of a reduction of the duty on goods imported from other parts of the British Empire. This is to help to draw the British Empire closer together by the bonds of trade, but at the same time to allow each colony full liberty to construct its own tariff.

It is pertinent to enquire whether, as things stand at present, England has any thing to offer to India under a scheme of Imperial Preference. England purchases from India mainly jute, raw and manufactured, raw cotton, rubber, lac, wool, seeds, minerals, rice, wheat, tea, coffee, tobacco, etc. These English purchases from India can be divided into three classes :—

(a) Articles in which a preference is an impossibility, *e.g.*, raw jute. India possesses a practical monopoly of raw jute. Hence, there is no competition to defend her against.

(b) The second group consists of important raw materials, raw cotton, raw wool and rubber, oilseeds, minerals, etc. If England gives preference to these Indian raw materials by imposing duties (or taxes) on these raw materials from foreign countries, then the prices of these raw materials will be raised in England ; and this rise in the price of raw materials will not be tolerated by English manufacturers. So India cannot expect from England preference as regards Indian raw materials exported to England.

(c) India's only remaining exports are articles of food, *e.g.*, rice, wheat, etc. If England gives preference to these Indian food-stuffs by levying taxes on these food-stuffs from foreign countries, that will raise the price of food in England ; and this rise in the price of food will not be tolerated by English labourers. So India cannot expect preference as regards important Indian food-stuffs exported to England.

The introduction of the Colonies into this problem does not materially change the situation. *England and the colonies have thus very little to offer to India under a scheme of Imperial Preference. Let us see whether India can hold out any advantages to these countries.*

(1) A large portion of the imports into India from countries other than England and her colonies is of such a nature that even with a preference, they (England and her colonies) could not step into the place of the existing sources of supply—such articles are fruits, vegetables, gums, resin, oil, spices and sugar, etc.

(2) *Indian imports come very largely from England and Indian industries find their most formidable competitors in English industries.* So if India joins the scheme of Imperial Preference and gives substantial preference to English industries, India will seriously injure her own industries, cotton manufactures, chemicals, leather manufactures, iron and steel goods, paper, glassware, etc. Hence India cannot give preference to England as regards these commodities for that will damage seriously Indian industries.

(3) With regard to machinery, instruments, chemicals, railway plants, etc., a strict policy of free trade should be maintained, when they are not manufactured in India. They are vital for industrial regeneration of this land and any rise of price in them should be shunned at all cost.

(4) There are other classes of English manufactures which compete not with indigenous products but with goods imported from countries like the U.S.A., Germany and Japan. Motor-cars, stationery articles, silk and woollen manufactures, etc., fall under this category. If India extends preference to England and her colonies on these items, there will be either a rise of prices or a fall of revenue in India—eventualities which India would do well to avoid.

(5) *Besides, by giving preference to countries within the British Empire, India may lose some valuable markets outside the Empire. There is again the possibility of retaliation by foreign countries whose interests may be injuriously affected by such a scheme. The most powerful argument against Imperial Preference is that it may disturb India's balance of trade which is essential for the solvency of this country. The maintenance of Gold-Exchange Standard depends on a favourable balance of trade. If the balance turns against India following the adoption of Imperial Preference, her currency system, finance and commerce, will be thrown into*

dire confusion. "The national solvency of India" said Lord Curzon "depends upon the preservation of an excess of exports over imports."

India thus is not in a position to offer herself as a partner in any scheme of Imperial Preference.

Question 11.—*What are the bearings of a forward irrigation or railway policy on Indian famines ?*

Answer.—See Ans. to Q. 6, 1918.

Question 12.—*"The land-tax is a rent and should respond to the economic laws of rent." Explain.*

Answer.—*The question whether the government land-revenue is a tax or a rent is more an academic than a practical one.*

(1) *At one time the tendency was to regard the ruler (the government) as the ultimate landlord and then the government land-revenue was called rent. Even now the government fulfils some of the functions of the landlord, inasmuch as it watches over the welfare of the agricultural population, it advances funds for making improvements—well-sinking, embanking, drainage and the like. Again, land-revenue from Ryotwari provinces has close similarity to rent. In the landlord provinces it is assessed on the basis of rent, there being no other criterion of assessment.*

(2) *But the British Government has recognised or conferred a private right in land and hence, it is impossible any longer to say broadly that the state takes its land revenue as a rent from the land-holders. Baden-Powell holds this view: "The land-revenue cannot" says he, "be regarded as a rent, not even in the Ryotwari lands". He goes on to assert "I should be inclined to regard the charge as in the nature of a tax on agricultural incomes."*

Question 13.—*Write notes on any one of the following :—*
 (1) *The Salt Tax,* (2) *The Income-tax,* (3) *The Rate of Exchange,*
 (4) *The Duty on British Cotton Imports,* and (5) *The Jute Exports.*

Answer.—(1) The Salt Tax.—From time immemorial a tax on salt has been a source of revenue in India. At the beginning of the century it stood easily first among the heads of taxation, excluding land-revenue, but due to reduction of the duty the yield has greatly fallen. *All salt consumed in British India is subject to duty*, the duty on imported salt being at the same rate as the excise duty on salt manufactured at home. The receipts under both heads are included in the salt revenue. *Of the total amount consumed in India, from a quarter to a third is imported by sea.* The general rate of duty which stood at Rs $2\frac{1}{2}$ per maund from 1883 to 1903, was reduced to Rs. 2 in 1903, to Re. $1\frac{1}{2}$ in 1905 and finally to Re. 1 in 1907. In 1916, it was raised to Re. $1\frac{1}{4}$. In 1923, in the teeth of opposition, it reached the high figure of Rs. $2\frac{1}{2}$ but on the succeeding year it was again reduced to Re. 1. 4 as. The average consumption of salt *per head* is about 6 seers *per annum*.

The salt tax is regarded as a reserve of financial power to be drawn upon in times of need. The salt tax is also supposed by the government to be the only tax that reaches the poorer classes in the country. The tax is unpopular because it presses hard upon the poorer classes, and a further decrease in the rate will be welcome.

(2) The Income-tax.—The Income tax was first levied in 1860 by James Wilson to rehabilitate the finances of India after the Mutiny, but in 1865, the tax was abolished. Two years later a license tax was imposed on trades and professions. The tax was finally abolished in 1872—73, only to be imposed again by Sir John Strachey in 1877. *The Income-tax Act was passed in 1886.* By this Act, all sources of non-agricultural incomes were taxed. They were divided into (i) salaries and pensions, (ii) profits of companies, (iii) interest on securities, and (iv) other sources. Incomes below Rs 500 per year were exempt from taxation as were incomes derived from land and agriculture. The tax was slightly higher in case of large incomes. By the Income-tax Act of 1903, the taxable minimum was raised from Rs. 500 to Rs. 1,000 a year. In 1919, all incomes below Rs. 2,000 were exempted from taxation. The following are some interesting figures connected with the income-tax—

Year	Estimated income on which tax was assessed	Total-collection
1886	Rs. 57,3600,000	Rs. 1,3700,000
1919—20	Rs. 177,7400,000	Rs. 8,7600,000

(3) **The Rate of Exchange**—*The rate of foreign exchange is the rate at which foreign money can be obtained and laid down in another country by the payment of national currency in one's country.*

The rate of exchange between countries having the standard coin made of the same metal, will be the relation between the weights of the metal of a particular fineness contained in the coins. This is the *mint par of exchange*, and the actual par will be above or below it as a country has to receive more or less from foreign countries than it owes to them.

There can, of course, be no mint par of Exchange between countries having currencies of different metal, as England and India, but the general principles of foreign exchange given above apply also to the reciprocal relation between these currencies. The fluctuations in the rate of exchange will, in these cases, be great, but at any given moment there will be a definite rate at which the currency of one country based on gold may be converted into that of another having a paper or silver basis. The market price of silver and the quantity of the paper money in circulation will determine this rate of exchange. The exchange on India before 1898 is an instance in point. India at present possesses the Gold-Exchange Standard which has all the features of the Gold Standard, for the purposes of international trade.

(4) **The Duty on British Cotton Imports.**—See Ans. to Q. 3 (c), 1918.

(5) **The Jute Exports.**—*India has a practical monopoly in jute.* During the early part of British rule in India, jute used to be exported in large quantity. The Crimean War gave

it a strong impetus by cutting off the United Kingdom from the supply of Russian flax. *On an average, after deducting home consumption, about half the Indian jute crop appears to be exported as raw jute, and the remaining half as manufactured goods.* The last pre-war period figures give the export of *raw jute* at a value of Rs. 30 crores. The United Kingdom is the best customer. Germany, the U.S.A. and France also purchase heavily from India.

Question 14.—*If you are asked to give a brief economic survey of your village, how will you classify your main heads of enquiry ?*

Answer :—

(A) DESCRIPTION OF THE VILLAGERS.

(1) Number of villagers.

Male.

Female.

Children under 14 years.

(2) The crafts and industries of the village : number of men professing different callings.

Weavers

Carpenters

Potters

Blacksmiths

Milkmen, etc.

Number of MENDICANTS.

(3) Is the population of the village increasing, diminishing or stagnant ?

Hindus.

Mohammedans.

(4) What portion of the villagers go outside for living ? Are there any strangers in the village ?

(B) EDUCATION OF THE VILLAGE.

Number of schools.

Number of literate people.

(C) SANITATION.

Number of ponds and tanks.

Drainage.

Is there any dispensary or a physician ?

Prevalence of Malaria and Kala-azar.

(D) ECONOMIC CONDITION OF THE VILLAGERS.

Periodicity of famine and failure of crops.

Causes.

The number of prosperous men in the village.

The state of cultivation.

The state of village industries.

Is there any Co-operative Society in the village ?

What are the main means of livelihood in the village ?

Rates of wages, profit and rent.

What are the minimum and maximum rates of interest charged by the village money-lender ?

What is the number of villagers who are in debt ?

Standards of consumption and family budgets of members of the middle class, cultivators, day-labourers, etc.

1922.

Question 1.—*Write notes on any three of the following :—*

- (a) *Reverse Councils*, (b) *Home Charges*, (c) *Gold Standard Reserve*,
(d) *Cotton Excise Duty*, and (e) *Guaranteeing Unions*.

Answer.—(a) **Reverse Councils.**—As the Government of India requires to remit money to London to meet the Home Charges, which amount to about £30,000,000 per annum (over 45 crores of rupees), this is done by the Secretary of State selling in London what are called Council Bills. A bank in London having a balance of payments which must be remitted in money to India, buys a Council Bill from the Secretary of State entitling it to receive so many thousands of rupees from the Government Treasury in Bombay, Calcutta or Madras. This being posted to India and cashed settles the balance of payments so far as that Bank is concerned.

In like manner, *when the balance of payments is against India*—that is to say, if more money is owing from India to other countries than from those countries to India—it is necessary either to send gold or silver out of India, or to buy from the Government in India bills payable in London, which are called “Reverse Councils”, or “sterling bills”. *These bills (Reverse Councils or sterling bills) are purchased by persons in India who have to make payments to foreign countries and they buy these Reverse Councils from the Indian Government in exchange for rupees.* The purchasers of these Reverse Councils then make their payments to foreign countries with the English money which they receive in exchange for the Reverse councils from the Secretary of State for India in England.

(b) Home Charges.—See Ans. to Q. 2, 1917 ; Q. 7, 1920.

(c) Gold Standard Reserve.—See Ans. to Q. 8, 1920.

(d) Cotton Excise Duty.—See Ans. to Q. 3 (c), 1918.

(e) Guaranteeing Unions.—The Guaranteeing Union is most common in Burma, the Central Provinces, Bihar and Orissa and Bombay. It serves as a buffer between the primary rural society and the distant Central Bank which is unable to get any detailed knowledge of its client's affairs : *the co-operative societies affiliated to the Guaranteeing Union make themselves mutually responsible for (i.e. guarantee) each other's borrowings and restrict such borrowings to a figure approved by themselves. The duties of a Guaranteeing Union comprise the assessment of the credit of each society belonging to it—inspection, advice and propaganda.* Mutual guarantee is effected by the rule that all societies constituting the Union shall be liable for any default by a society in the repayment of a loan recommended by the Union.

“The chief benefit conferred on the movement by the Union system” says a high authority “is that it brings out and develops the best human talent in the primary societies.”

Question 2.—*Examine the measures adopted by the Government to solve the problem of agricultural indebtedness in this country.*

Answer.—See Ans. to Q. 2, 1918.

Question 3.—*Enumerate the chief defects of Indian industrial labour and suggest measures for improving its efficiency.*

Answer.—See answer to question 10, 1920.

Question 4.—*Give an account of the present position and discuss the future possibilities of non-credit co-operative societies of this country.*

The Act of 1912 fostered the growth of *non-credit co-operative societies* and their number is gradually on the increase. Of these about half are connected in some way or other with agriculture. Societies have been started for the production and sale of rice and other crops, or for the insurance of cattle. Other societies have been established for the purchase of agricultural implements, manure and seeds, for the consolidation of scattered holdings and for irrigation and farming. The increasing difficulty in procuring pure milk and other dairy products at reasonable rates has brought the question of co-operative dairying into prominence. The institution of *Building Societies* in Mysore and Bombay has been a novel feature of co-operative movement in India. *Co-operative Urban Stores* are also holding their own in the teeth of fierce competition. *Co-operative Anti-Malarial Societies* are doing useful work in connection with the eradication of the disease from Bengal.

Till recently, credit altogether monopolised the service of co-operation in India. People noted with uneasiness this abnormal growth of one limb of co-operation. Fortunately, the usefulness of co-operation in other spheres of life is being appreciated now. There is still a vast scope for these types of societies to develop. The principle of co-operation can be applied, as it is being applied in a few cases even to-day, in a variety of ways to put larger profits into the pockets of the producers. Certain areas are eminently suited to particular crops and industries. Without disturbing the old order of things, they can be brought within the pale of the co-operative movement. The cotton, sugar-cane, potato and other crops can be dealt with in this way as also the weaving, leather-making, paper-making and oil-pressing industries. More dairies can be conducted on the co-operative principle. Co-operation can settle the vexed question of fragmentation of holdings and

combat famines by constructing irrigation works. Co-operation in distribution and consumption has a great future before it, but the middle classes of India have not yet taken kindly to it, and certain peculiar circumstances are found to retard its progress.

Question 5.—*Discuss the need of foreign capital for the industrial development of India.*

Answer :—

See answer to question 9, 1917.

“ “ “ question 3, 1921.

Question 6.—*Describe the main systems of land-settlement established in British India.*

Answer.—See answer to question 3, 1920.

Question 7—*Trace the history of the Indian Currency System from 1835 to 1900.*

Answer.—See Ans. to Q. 5, 1910.

Question 8.—*Describe the chief characteristics of Indian foreign trade and account for the permanent excess of her exports over her imports.*

Answer.—Chief characteristics of Indian foreign trade.

See answer to question 1, 1919.

“ “ “ question 11, 1920.

Reasons for the permanent excess of India's exports over imports.

See answer to question 3, 1909.

Question 9.—*Examine the case for and against the state management of Indian railways.*

Answer.—Special characteristics of Railway industry which make state management easy and desirable.—

- (a) The work is mainly of a routine character.
- (b) Work is done under public eye.
- (c) Bureaucratic spirit is not strong enough to retard progress.
- (d) Monopolistic nature of railways makes state (and not private) management desirable in the public interest.
- (e) Stability of railway rates.

The case for state-management of Indian railways.

(1) State-management is expected to improve the prospect of Indians in railway services.

(2) A sympathetic railway policy will foster the growth of Indian trade and industries.—In many places railway tariff supplements the customs tariff.

(3) State-management would prove an instrument of social reform. By issuing cheap tickets to labourers, it may solve the problem of overcrowding in the cities, and relieve them of a part of their excess population.

(4) Profits accruing from railways will help to swell the state-income.

The case against state-management of Indian railways.

(1) State-management is inefficient compared with that of private companies.

(2) Many of the advantages claimed for state-management are mutually destructive. For instance, if the railways are used as instruments for the accomplishment of social and labour projects, then they can neither be expected to realise a profit for the state nor to give reduced rates and fares to the trading and travelling public.

(3) State interference with railways may be prejudicial to the industry itself, 'Railways corrupt politics and politics corrupt railways.'

Apart from giving one's verdict on the rival merits of state *versus* private management, it may safely be predicted that *the future lies with state-management, so far as Indian railways are concerned*. The Acworth Report favoured this view. The Eastern Bengal, Oudh and Rohilkhand and North-western Railways are already managed by the State. The management of the East Indian Railway has been recently acquired by the State and that of the Great Indian Peninsular Railway will very soon pass into its hands.

Question 10.—*Discuss the advantages and drawbacks of the imposition of protective duties on the manufactured imports of this country.*

Answer.—See answer to question 11, 1920.

1923.

Question 1.—*Indicate the principal heads of revenue of the Government of India and the Government of Bengal. To what extent are these sources of revenue elastic ?*

Answer.—**Government of India—Principal Heads of Revenue.**

- (1) **Customs**—duties on imports and exports of goods.
- (2) **Railways**—profits on the working of railways in India.
- (3) **Income-tax**—tax on all sources of non-agricultural income—(i) salaries and pensions, (ii) profits of companies, (iii) interest on securities, etc.
- (4) **Salt-tax**—raised by a duty of Re. 1-4-0 per maund on all salt imported into or manufactured in India.
- (5) **Opium.**—The price received from the sale of opium the production of which is a government monopoly in British India. It is a dwindling source of revenue.

Government of Bengal—Principal Heads of Revenue.

- (1) **Land Revenue.**—The government base their claim to the land revenue on "the ancient right of the state to a share of the produce of the soil." In Bengal the land revenue is fixed in perpetuity.
- (2) **Excise**—derived from intoxicating liquors, hemp drugs, and opium consumed in the country, and is levied in the form of duty on manufacture and fees for sale licenses.

The extent to which these sources of revenue are elastic—

Customs at present are the biggest source of revenue. The yield from customs will vary largely if the scale of duties is either raised or lowered. Similar result will appear if a large number of articles are made either subject to or exempt from duties. There is, however, a limit to the growth of customs revenue ; if exorbitant duties are imposed, they will discourage or altogether stop purchase and thereby defeat their own purpose.

Income-tax is also an elastic head of revenue. If its rates are enhanced, there is bound to be an increase in its yield, but

excessively high rates are sure to discourage saving and put a premium on expenditure.

The elasticity of *salt revenue* is well-known. Deficits in the budget of the Government of India are often met by the expedient of increasing the salt-tax. But increasing the rate will not increase the yield *ad infinitum*. Salt-tax, like every other tax, has a maximum revenue point. Besides, it must be remembered that salt forms a necessary element of food of every section of population and any diminution in its consumption on account of the rise in its price due to a higher tax is sure to affect injuriously the health of the Indian population.

With the expansion of trade, development of industries and increase of the number of the travelling public, the *profits yielded by railways* seem to be a growing source of revenue. Any appreciable rise in the railway rates for goods traffic is not desirable in the interest of the infant industries of India. The bulk of the inhabitants of India are very poor and travel in the third class. No increase in the third class fare is conceivable just now as it is bound to be too high for the slender resources of the people. The potential elasticity of railway revenue is considered very great.

There is a serious agitation for restricting the area of *opium* cultivation. The revenue is thus likely to dwindle into insignificance in the near future. *On the whole, the government of India is in possession of a number of elastic sources of revenue.*

The case of the government of Bengal is not so hopeful. The land revenue, by the Permanent Settlement of 1793, is fixed in perpetuity. Hence, there is no chance of increase in this direction. The revenue from excise can expand if there is a brisk sale and manufacture of intoxicating liquors and drugs. As no civilised government can countenance such a policy, *the income from excise cannot be judged as elastic.* Such a state of affairs has led the people of Bengal to demand the appropriation of the export duty on jute which is the monopoly produce of this province, for their own use.

Question 2.—*Describe the composition and functions of the Indian Paper Currency Reserve.*

Answer.—See answer to question 1, 1917.

Question 3.—*What part do the Exchange Banks play in financing the international trade of India ?*

Answer.—Indian exporters present their bills to the Exchange Banks in India with a view to sell them. The banks purchase them and send them to their London office. One may think that the London office, under these circumstances, waits till the bills mature ; but it does nothing of the kind. As soon as it receives the bills it places them in the London Money Market where they are bought as other commercial papers. The money received by the London office is devoted to the purchase of Council Bills. These Council Bills are sent to the Indian Banks which place them before the Government of India and receive cash in return. Thus *the international trade of India is financed by the Exchange Banks and the London Money Market.*

Question 4.—*Discuss the relation of the Imperial Bank of India to the State.*

Answer :—

(I) *The Government has some hand in determining the management of the Imperial Bank.* The Central Board of Governors, which is ultimately responsible for the bank's business, is composed in the following manner :—

- (1) The President and Vice-Presidents of the Local Boards.
- (2) Not more than four persons nominated by the Governor-General in Council, who hold office for one year, but may be re-nominated.
- (3) Two Managing Governors to be appointed by the Governor-General in Council on the recommendation of the Central Board, to hold office for such period as the Governor-General in Council may direct.
- (4) The Controller of Currency or other officer nominated by the government.
- (5) The Secretaries of the Local Boards.

(II) *It was always a feature of the Presidency Banks that they transacted government business, and that they were limited as to the character of the commercial business they could undertake. The Imperial Bank inherits these privileges and restrictions.* As regards government business, the bank may transact any busi-

ness, with which the Government from time to time entrusts it or which is provided for by agreements made between the bank and the Secretary of State. *In general, the Imperial Bank acts as banker for Government and remits money or lends on securities on behalf of Government. It issues government loans and manages the Public Debt.* The commercial business which the Bank may transact is subject to limitations similar to those which were imposed on the Presidency Banks.

The Imperial Bank has an office in London, but it is not permitted to deal directly with the public in foreign exchange, though it may transact business in London on behalf of Government, public bodies and other banks.

One very important part of the whole scheme of the Imperial Bank is the provision that the Bank shall open 100 new branches within five years ; and of these 25 are to be established at places which Government may direct. This ought to do a great deal to improve the banking facilities of the country.

Question 5. *Analyse the causes that led to the rise of the Indian Exchange in 1917.*

Answer. Causes of the rise of Indian Exchange in 1917.

(1) Rise in the price of silver in the world's markets (due to decreased supply of silver and increased demand).

(2) Depreciation of European Currencies.

(3) A big balance of trade in favour of India creating a strong demand for Council Bills and raising the rate of exchange.

(4) Sale of Reverse Councils.

For a fuller exposition see answer to question 9, 1921.

Question 6. *India is described as a sink for the precious metals of the civilized world. Account for the seemingly large absorption of precious metals in India.*

Answer. See answer to question 10, 1918.

Question 7.—*'Modern Indian famine campaign is one of the most remarkable achievements in history of scientific administration'. Describe the measures adopted in India for the prevention and relief of famines. How far have those measures succeeded in their aims ?*

Answer :—

See answer to question 6, 1918.
Do do 7, 1919.

Question 8.—*Give an account of the activities of the government in this country in stimulating industries.*

Answer—‘Under the rule of the East India Company, the indigenous industries of the country fared very badly. Since the assumption of the administration by the crown, the government has always maintained a policy of non-interference or *laissez faire* in matters of industry and trade’.

Active steps are scarcely, if ever, taken by the British Government in India to further industrial development.

At the present moment the British Government is showing some interest in these matters, and giving effect to some of the recommendations of the Indian Industrial Commission which was appointed a few years ago to suggest lines of state-assistance to industries.

(i) *Circulars have been issued to the effect that Government stores should, as far as practicable, be purchased in India. Unfortunately these instructions are not always followed.*

(ii) *The Government has appointed a Director of Industries in each province, who publishes much valuable information and helps to diffuse knowledge regarding existing manufactures and future possibilities.*

(iii) *The Government has also given some encouragement to technical and commercial education by offering scholarships to deserving young men, and by helping some of the private industrial associations.*

(iv) *In some cases the Government has undertaken "pioneering" i.e., has set up model factories or institutes to demonstrate the utility of particular industries. In this connection, the government weaving institute at Serampur or the Government Research Tannery at Tiljala may be mentioned. Similar attempts have been made also in other provinces.*

(v) *Many Indian industries, being still in a nascent or infant stage, require protection from the strong competition of powerful and grown-up foreign rivals. A protective import duty has been*

recently imposed on iron and steel products to help the local industry. A further help in the shape of *direct bounty* is also being accorded to the same industry. *A Tariff Board has been created to investigate the claims of particular industries to protection and to advise the Government and the Legislature in passing such measures.*

These activities sum up the steps taken by the government in the matter of the encouragement of industry. But, taken together, they do not amount to much. In this respect, *the Government of India compares most unfavourably with other civilised governments.* But, whatever may have been its short-comings in the past, it is perhaps not too much to hope that the Government will in future recognise its responsibilities and devote its earnest attention to the cause of the Indian industries.

Question 9.—*It is sometimes suggested that a heavy duty should be levied on the export of food-grains from India with a view to conserve India's food-supply for her own use. Argue the case for and against such a proposal.*

Answer.—There is a section of public opinion in India which advocates prohibition of the export of food-grains in order to conserve the food-supply of the country for the use of the Indian people. An attempt is made to prove, by statistics, that the food production of India is not adequate to provide the required food-supply—and if food exports from India are allowed, a portion of population remains permanently underfed.

But the real problem is one of poverty and prices. It is not actually the insufficiency of the total Indian food-supply so much, as the fact that certain classes of population are too poor to buy all the food they require, which is the crux of the situation.

(1) *If there is an artificial reduction of the price of food grains, it is clear that it would involve a considerable diminution in the income of the agriculturists from the sale of agricultural produce.* Everybody wants to see the methods of cultivation improve and agricultural classes prosper in the interest of India. Hence, the conditions of cultivators cannot, on any account, be allowed to deteriorate.

(2) *Again it is very probable that the attempt to lower the price of food-grains artificially will fail.* Any depression of the price of food-grains would naturally lead to the substitution of

non-food crops such as cotton, jute and oilseeds in the place of food-crops in some areas, and so the effect of this attempt to cheapen the food would be to decrease production of food in the country.

(3) Under natural conditions India has an exportable surplus. This is most important. *Were the export market not open, the surplus would not be produced.* Hence the reserve which can be utilised in years of famine, drought, etc., by putting embargo upon export would vanish.

The path of progress and even of safety lies in the direction of stimulating the production of food-grains in India. *In normal times* any restriction on the export of food-grains is contrary to the true interests of the country. *In abnormal conditions* (e.g., during times of famine or scarcity) temporary prohibition of the export of food from India may become necessary.

Question 10. *Write notes on any two of the following :—*
(a) Cadastral record, (b) occupancy ryot, (c) the octroi, (d) the Pittman Act.

Answer.—(a) Cadastral Record.—See answer to question 6 (a), 1917.

(b) Occupancy Ryot.—See answer to question 6, 1920.

(c) The Octroi.—In the crudest form transit duties are a toll or tax on the mere movement of goods, without any attempt to see whether the goods taxed are really objects of consumption or simply passing through a country *en route* to a more distant destination. In the more modern forms of the *Octroi*, however, in which a town or city government levies a small charge on the articles brought to the city barriers, and meant to be consumed within the city, these duties do not arouse much objection. They are very common in certain provinces of India.

(d) Pittman Act.—In the year 1917, there was noticed a serious shortage in the supply of silver and a heavy rise in its price followed. Meanwhile the Government of India was seeking some new source for the supply of silver. Knowing that the U. S. A. had in its treasury an enormous reserve of silver dollars, the Indian Government approached the U. S. A. Government to sell some of this large reserve. The United States came to the assistance of India in a most liberal manner. The

so-called Pittman Act was for this purpose passed through Congress in April, 1918, and it gave the American Government power to sell the silver in the reserve to a total amount of 350 millions of dollars worth over 100 crores of rupees. The silver in the Indian Paper Currency Reserve had fallen to a dangerously low level. A crisis developed in the monetary centres of India. There was much relief when it was announced that the Pittman Act had been passed and that large quantities of silver would reach India within a short time. Thus the grave currency situation of India was solved by this well-timed measure of the United States.

1924.

Question 1.—*Indicate the causes that help the growth of capital in a country. To what extent are those causes present in India ?*

Answer.—Capital is wealth, wealth that is invested in productive enterprises, wealth that yields or is intended to yield income. The growth of wealth in a country depends upon both subjective and objective conditions.

I. *Subjective causes and conditions.*

Of the former, the *habit of saving* is very important. Such motive as *family affection* urges men to save money.

II. *Objective causes and conditions.*

Of the *objective conditions*, the sources out of which such accumulation is made are rent, wages, interest and profits. "In a country where *security* reigns, the system of barter-economy has been substituted by *money economy*, a *sound credit system* obtains, *means of communication* have been improved and *institutions which facilitate saving*, e.g., Savings Banks, Co-operative Societies, Insurance Companies, etc., have been well-established, the accumulation of capital is greatly accelerated." A *high rate of interest* encourages saving.

In India the growth of capital has been rather slow because habits of saving were more or less non-existent on account of social and religious causes. The motives for saving were

absent, as wealth was in general looked down upon and plain living was held in high regard. The trend of Indian thought glorified not enjoyment but sacrifice, not multiplication but minimisation of wants.

Again, public security was inadequate, credit was still in its infancy and institutions facilitating saving, viz., Savings Banks, Co-operative Credit Societies, Insurance Societies were practically unknown. Moreover, the sources of income, for instance, Rent, Wages, Interest and Profits out of which savings are made were meagre and scanty.

Now-a-days the above conditions are steadily disappearing and the circumstances which lead to the growth of capital are gradually manifesting themselves. Many enterprises have been started with pure Indian capital and supervision. People are getting familiar with bank, credit and insurance societies. Heavy investments are made in government stocks and securities. Further, with the development of railways and other means of communication the immobility of Indian capital is vanishing day by day. In short, the causes that help the growth of capital are operating quite favourably in India.

Question 2.—*Describe briefly the essential features of the Gold Exchange Standard. What part does the Gold Standard Reserve play in the Indian Currency System ?*

Answer.—See answer to question 6, 1919.

Do do 8, 1920.

Question 3.—*'Stability of exchange is essential from the point of view of foreign trade.'*

Illustrate the truth of this remark with reference to Indian conditions.

Answer.—*In the opinion of the Babington-Smith Committee, stability of exchange "is an important facility rather than an essential condition. There are many instances including that of India herself before the closing of mints which show that trade has flourished and can flourish with a fluctuating exchange. The conditions are somewhat more speculative, but the difficulties which may arise are not insuperable."*

(1) To this view, Jevons in his book called *The Future of Exchange and Currency* takes a considerable exception. *The general result of the uncertainty of trade when an exchange is liable to fluctuations is to compel traders to buy for immediate needs only, and this keeps the trade at a lower total volume.* It is possible that forward contracts save the merchants from a considerable amount of risk, but still, exchange fluctuation involves much trouble as well as a payment to the exchange banks.

A large rise in exchange tends to stimulate the import trade and check the export trade whereas a large fall does the *vice versa*. Though this disturbance is a temporary one, the process of re-adjustment is always difficult.

(2) *Again the movement of capital from England to India or of Home Charges from India to England is greatly hampered by fluctuating exchange.*

Further, the evils of instability are multiplied in the case of countries situated like India where the movements of exchange are brought about through administrative act.

A stable level of exchange thus gives the most healthy condition for production and trade, as well as for the employment of capital.

Question 4.—*Argue the case for the reversal of the Permanent Settlement of land revenue of Bengal.*

Answer—(1) *The view that the Permanent Settlement is irrevocable.*

The question of the reversal of the Permanent Settlement is often summarily rejected on the ground that it is a solemn contract between the State and the landlords and hence irrevocable and cannot be changed. The fact is that the settlement reached by a particular government in connection with the Permanent Settlement cannot legally bind all successive governments.

(2) *The view that the Permanent Settlement is revocable.*

The government is fully justified in setting aside the Settlement paying suitable compensation to the landlords if the wider

interests of the nation demand such a measure. The Permanent Settlement did not actually produce the benefits anticipated by Lord Cornwallis and consequently it has no legs to stand upon.

(a) *The Permanent Settlement did not prove a safeguard against famines. The conditions of cultivation have not appreciably improved under the system. The Government does more in relieving ryots' distress than the Zamindars do for their tenants. The evils of absenteeism (on the part of the landlords), of management of estates by unsympathetic agents, of unhappy relations between landlords and tenants, and of the multiplication of tenure-holders or middlemen between the Zamindar and the cultivator in many and various degrees are too glaring to be endured*

(b) *The Permanent Settlement has prevented many enterprising youths from going to trade and profession and the industrial backwardness of Bengal is partly due to it.*

(c) *The Permanent Settlement means a fixed land revenue for the landlords which cannot be increased, and so it means a large loss of revenue to the Government. If there had been no Permanent Settlement, the Government could have increased its land revenue; and this increase might have been devoted to the cause of education, sanitation and other nation-building activities. The total rent collection from the tenants amounts to about 16 crores out of which only about 4 crores are received by the Government as land revenue and the rest is appropriated by the landlords. Surely, the community through the state has a right to demand a portion of this unearned income of the land-lords for nation-building activities.*

These considerations call for the reversal of the Permanent Settlement; but there are other arguments, equally strong, which justify the retention of the Permanent Settlement.

Question 5.—*Describe the system of land tenure prevalent in the United Provinces.*

Answer.—In Benares the settlement of land revenue was made permanently, but it was not extended to some other districts as had been previously promised. In 1833, Lord Bentinck's government made the *first regular settlement* in the province of Agra. The settlement was made with *village proprietors* wherever possible and with *Zamindars* on the principle of

joint responsibility. Hereditary tenants and tenants of 12 years' standing were given the right of occupancy, and the rate of assessment was made moderate. The settlement made the *talugdari* system rare in Agra. The assessment was fixed at 66 per cent. of the rental and the settlement was introduced for a period of 30 years. Later on the 66 p. c. rule was found to be too harsh. The *Shaharanpur rule of 1855* reduced the assessment to 50 p c. of the net produce.

Oudh was annexed in 1856. An attempt was made to set aside the *Taluqdars* and to settle with the village proprietors, but the Mutiny upset the whole scheme. At last their rights were recognised. By the Oudh Rent Act of 1861, Sir John Lawrence gave the tenants of Oudh something of the same protection which Lord Canning gave to the Bengal cultivators. The Act prohibited the enhancement of rent except by order of a court of law and equity.

Excepting the *Taluqdari estates* the settlements in the U. P. are made with village communities. The unit of revenue management is the *Mahal* or the estate composed of a village or villages.

Question 6.—*Describe the utility of the co-operative grain-banks in Bengal.*

Answer.—*Co-operative grain banks fall under the category of Agricultural Co-operative Credit Societies ; the only difference between the two is that, whereas the latter deal with money and money-debts, the former (co-operative grain-banks) deal with paddy and paddy-debts.* Owing to the poverty of the great mass of agriculturists, it often happens that they have to sell their grain immediately after the harvest when prices are at their lowest, in order to pay rent, *mahajan's* debts, or land revenue assessment and that they are unable to keep in hand enough corn to maintain their families until the next year. Prices almost always begin to rise some three or four months after the harvest has been reaped, but the profits fall into the hands of the dealers and not of the cultivators.

The objects of Grain-banks or Dharmagolas are, (1) first, to enable agriculturists to tide over the period of low prices and to sell their harvest at a good profit ; (2) secondly, to create a

store of paddy to be lent out to members only for seed grain, maintenance, and for repayments of paddy debts at higher interest, and (3) *thirdly*, to create a reserve stock for any unforeseen emergencies, such as famine and scarcity.

The advantages of Grain-Banks—

(1) A Grain-bank or Dharmagola can be established in each village from its own resources.

(2) The contribution of each individual being only a small portion of the annual yield of paddy is not likely to cause any hardship.

(3) The cost of its upkeep will not be heavy, as the posts of the Panchayets other than the *Goladar* will be honorary. Fit men for the management of the banks will be always available in the village.

(4) There will be no scope for excessive borrowing from such banks, as there may be in the case of money banks.

(5) The Dharmagolas, by supplying grain for food to the cultivators in want, would allow them to fetch better prices for their crops.

(6) The Dharmagolas being the public property of the village and no one having any right to sell the stock, a reserve stock of grain will ever remain in the country.

(7) The Dharmagolas will greatly relieve the *Zamindars* and the Government of the necessity of making contributions for assisting the people during hard times.

(8) During times of scarcity a formidable difficulty presents itself in transport of grain to villages which have no railway or steamer communication. The establishment of these banks will solve the difficulty.

Question 7.—*What are the economic effects of the laws of succession in India?*

Answer.—*Evil results of the Indian law of succession.*

According to the law of primogeniture which obtains in England, the first-born male child has the right to inherit the real estate of his father. *In India the property of the deceased father devolves, by the law of succession, on all male children in*

equal shares. Thus in two or three generations a big estate is split up into a number of small plots absolutely uneconomic from the point of view of cultivation and farming. Thus the bulk of the agricultural holdings in Zamindari as well as Ryotwari areas are not economic ones. [Mr. Keatinge defines an economic holding as one "which allows a man a chance of producing sufficient to support himself and his family in reasonable comfort after paying his necessary expenses."]

The cultivator in possession of such a holding cannot be expected to develop or improve his property and must live in depressing circumstances. He ekes out an existence by taking to other occupations and working as a wage-earner either in his own village or elsewhere. These are meant to supplement his income from land.

Growth of population and continued partition of landed property (under the law of succession) have resulted in minute subdivision and dispersion of land. Land is not only split up in small fragments, but these latter, though belonging to the same person, are scattered in distant places and different parts of the village, so that their cultivation means duplication and waste of labour, any introduction of large-scale production or modern methods being out of the question.

The problem of the distribution of agricultural holdings dissolves itself into the following :—

I. How to prevent the subdivision of holdings below limits which are regarded as economic.

II. How to bring together the scattered strips comprised in the holding of a particular person.

Remedies.

(1) *Legislation.*—The most obvious remedy will be to change the law of inheritance, but it is not to be thought of at present. India is a conservative country. If such a measure is contemplated, an enlightened public opinion must be ready to support it everywhere. This is a matter of time. Law can be passed which will refuse to recognise subdivision of fields below a certain limit, but the moment for such legislation has not yet arrived.

(2) *Co-operation*.—Co-operation, can achieve much in this direction. All contiguous strips can be joined together and cultivated as one large holding; the yield is to be distributed afterwards on an equitable basis. Again, through the agency of a co-operative society, the exchange of plots of land may be made in such a manner that a particular person will get all his property consolidated in one big holding.

Question 8.—*Examine the probable effects of a policy of Protection upon the economic condition of the agricultural population of this country.*

Answer.—(1) *Agriculture must remain the foundation of economic life in India.* Indian industries cannot flourish without a prosperous Indian agriculture. *Agriculture is largely the provider of the raw materials for industry (manufactures) and the Indian agriculturist will offer the main market for the products of Indian industries.* Any form of protection, therefore, which would seriously injure the interests of agriculture would go far to defeat its own object.

(2) *Industrial development* (the development of manufactures, etc.) *through protection may be of advantage to the agricultural community,* (i) in some cases through a sympathetic rise in wages, (ii) in others through the wages of industrial workers being made available for expenditure in the villages, (iii) in others through a reduction in the number of those dependent on land.

But while a policy of protection of industries may not injure the agricultural wage-earners, the agricultural producer—the man who either works the land himself or employs hired labour—may suffer to some extent. Protection may mean to him a higher cost of production, arising partly from the higher wages that he will have to pay and partly from the general rise in the prices of commodities and the cost of living due to production. As a set-off against this higher cost of production, it is probable that in the neighbourhood of industrial centres the demand for agricultural produce will raise the price. But in general one of two results seems to follow. Either the agricultural producer will not receive for his produce an increased price which will fully compensate him for the increased cost of production, or the price of the agricultural produce will be raised generally to

cover the increased cost of production with injurious effects on the mass of the population.

If protection is applied with discrimination, the result will not be so harmful to the agricultural producer or the consumer in general, as has been depicted. (Report of the Indian Fiscal Commission).

Question 9. *Locate the chief mining industries of India.*

Answer. See answer to question 3, 1921.

Question 10.—*Write short notes on any three of the following :—*

- (a) *The Excise Duty on Indian cotton textiles.*
- (b) *The Salt Tax.*
- (c) *The Punjab Land Alienation Act.*
- (d) *The Indian Paper Currency Reserve.*
- (e) *State versus Private ownership of Indian Railways.*

Answer—(a) The Excise Duty on Indian cotton textiles

See Ans. to Q. 3 (e), 1918.

(b) The Salt Tax—

See Ans. to Q. 13 (1), 1921.

(c) The Punjab Land Alienation Act.—The fatal ease with which the agricultural tribes of the Punjab had got into the clutches of money-lenders resulting in their transformation from proprietors to tenants had long been marked, and remedies discussed for arresting this tendency. The outcome of years of discussion was *Act 13 of 1900*. It limited the free transfer of landed property by persons who are declared to be members of agricultural tribes to members of the same tribe, or of a tribe in the same group. Transfers of land by such people to non-agriculturists require the consent of the Deputy Commissioner, for whose guidance explicit rules have been laid down. The Act also places restrictions on mortgages to non-agriculturists. *The object of the Land Alienation Act is to restrict the cultivators' power of selling (alienating) their lands with a view to prevent money-lenders from getting hold of the cultivators' lands.*

(d) The Indian Paper Currency Reserve.

See Ans. to Q. 1, 1917.

(e) State VERSUS Private ownership of Indian railways.—In India, the question of *State* versus *Private ownership* is unreal, because by far the greater part of the railway system of the country is now owned by the State. India is far in advance of several western countries in the matter of nationalisation of railways. The subject of *State* versus *Company management* was under discussion for a long time and finally the verdict of the Acworth Committee was given *in favour of state management*.

For a complete discourse, see Ans. to Q. 9, 1922.

1925.

Question 1.—*Comment on the following :—"Even if the system of production on a large scale be adopted in India, the small industries need not die out."*

Answer :—

See Ans. to Q. 2, 1916.

Question 2.—*Describe the chief characteristics of Indian industrial labour. Examine the contention that low paid labour is not necessarily cheap.*

Answer :—

See Ans. to Q. 3, 1922.

Indian workmen may get extremely low wages, but that does not prove that we have cheap labour. Cheap labour in this sense is often dear labour. A man who does not get enough to eat and has not a healthy house to live in, cannot be expected to keep himself fit. His low vitality will manifest itself in the poor quality of his products and the small output (or quantity of work) per day. The low wages which are paid out to him do not make for cheapness and economy. The Indian workman gets low wages and gets through a small amount of work every day; the English workman may get four times the Indian's wages but may do more than four times the work. So the

Indian with his low wages and small output of work is not cheap but dear labour to his employer.

Question 3.—*"Credit is an indispensable factor in business."* Show how credit is supplied in India to (a) the agriculturist and (b) the trader.

Answer:—

(a) See answer to question 2, 1918.

(b) Exchange banks largely finance the trade of India. Indian exporters present their bills before these banks in India with a view to sell them. The banks purchase them and place their credit at the disposal of the exporters. The funds of the exporters being replenished, they again participate in trade. Meanwhile, the exchange banks send those bills to their respective London offices. The London office places them in the money market where they are bought as other commercial papers. The money received by the London office is devoted to the purchase of Council Bills. They are despatched to the Indian Banks which present them to the Government of India and take cash in return.

Question 4.—*Describe the main features of the tenancy legislation in India.*

Answer :

See answer to question 3, 1919.

See answer to question 3, 6, 1920.

Question 5. *'The Railways in India are owned and worked under a variety of conditions.'* Examine with reference to the history of railway construction in India the circumstances that account for this variety.

Answer:—

(A) The Old Guarantee System

Railways were first introduced in India in the middle of the nineteenth century by Joint-stock Companies with sterling capital and English domicile, under contract from the government. Their terms were:

(i) Companies guaranteed 5 p.c. interest on their capital outlay, with half the surplus profits, the rest to be made over to the government.

(ii) Land was granted to these companies free of cost.

(iii) The Railways to be sold to the government on fixed terms at the end of 25 years. [The period was subsequently extended.]

(iv) The government to exercise control on working and expenditure.

Its advantage.

This policy of attracting English capital by a fixed guaranteed rate of interest served its purpose at the time.

Its disadvantages.

It proved in the long run, to be very disadvantageous to India, owing to—

(1) The *heavy cost of construction of the railways* due to the introduction of most costly methods resulting from the ignorance of the engineers.

(2) The inability of the officers of the Government of India to cope with their duties as regards the criticism, approval and sanction of proposed outlays.

(3) *Carelessness in management* by the officers of the companies as they were assured a fixed return on their capital from the government revenues.

(B) Direct State Agency in Railway Construction.

Hence railways began to be constructed and worked by direct state agency from 1870. No increased charge was to be thrown on the revenues. Construction was financed by borrowed capital. The system of direct state agency did not work satisfactorily in practice on account of—

(i) The heavy and continuous fall in exchange after 1873

(ii) Large expenditure incurred by India for conducting wars.

(b) Assisted Companies and a Guarantee System.

Then there was a return to the old order. Management by Assisted Companies again came into vogue.

(a) The later Guaranteed Companies were promised interest in no case exceeding 4 p. c. The share of the surplus profits left to the companies was less than half and the lines were the property of the government. These were all companies with sterling capital and English domicile.

(b) Companies with rupee capital were formed in India to construct branch and feeder lines. They were also recipients of State help.

(c) Lastly, there are railways over whose transactions the government exercises no financial control. But they are all assisted in one way or another.

When the guaranteed Railways were purchased by Government, payment was made in the form of terminable annuities. Many lines owned by the state were till recently allowed to be worked by private companies. The movement was set on foot to secure the management by the state of railways owned by the state. The present policy of the Government is to take over the company-managed lines and work them directly.

Question. 6.—*Describe the various types of Banks that exist in India.*

'The Government of India itself is a great banker'—comment.

Answer.—The banking system of India comprises the following four as main constituents—

(a) *The Imperial Bank* arising out of the amalgamation of the three Presidency Banks of Bengal, Bombay and Madras.

(b) *European Exchange Banks.*

(c) *The Indian Joint-stock Banks.*

(d) *The Shroffs, Mahajans and other money-lenders.*

(A) The Imperial Bank was founded on the amalgamation of the three Presidency Banks of Bengal, Bombay and Madras. The Presidency Banks at first had a semi-official character; the connection between the Government and the Banks ceased

in 1876. They carried, however, the banking business for the government and managed government loans. Up to 1862, the Banks had the privilege of issuing notes; when that privilege was taken away, Government compensated them by depositing all their treasury balances with the Banks; in 1876, even this privilege was modified; for in that year the Government Reserve Treasuries were formed and only a portion of the balances was kept in the Banks. The Presidency Banks had to carry on their operations under several restrictions. When the Imperial Bank was created by the Act of 1920, it inherited all the privileges and restrictions of the Presidency Banks.

See also Ans. to Q. 4, 1923.

(B) Exchange Banks.—The exclusion of the Presidency Banks from dealing in foreign exchange and from raising funds in London created the necessity for and gave rise to the Exchange Banks. Officially, an Exchange Bank is one which has its Head Office outside India; but in practice, Banks engaged in these two classes of business are all Exchange Banks. These Banks can be divided into (a) those which do the greater part of their business in India, and (b) those which are merely agencies of large banking houses doing business all over Asia. The following constitutes the *main business of the Exchange Banks.*

(1) *They receive deposits—both in and outside India—fixed for definite periods, or on current account.*

(2) *A large part of these funds is employed in the purchase or discount of foreign Bills of Exchange. These Banks have almost a monopoly of financing the export trade of India and play no mean part even in the import trade.*

(C) The Indian Joint-stock Banks.—Most of these Banks are of recent date. Some of these owe their rise and progress mainly to the Swadeshi movement beginning from 1905. In the years that followed they made a rapid progress—almost feverish development. But several bank failures marred the progress of the movement. The most respectable among them confine themselves to the legitimate branches of banking business. If they can be developed on well-chosen lines, they would be of immense assistance in the economic development of this country.

(D) **Native Bankers, Shroffs and Mahajans**—They are peculiarly an Indian product. They had existed and done banking business in India long before the Western banking system made its appearance. Even to day their utility is very great. They are in closest touch with the vast and varied trading interests of India. In addition to their ordinary banking functions, these indigenous agencies often act as the middlemen between the banks of the first three types and the trading world.

The Government as a great banker.

Besides these the Government of India itself is a great banker ; on account of the inability of the Bank of Bombay to meet the government demand for withdrawal of large sums at short notice, the Government decided not to entrust these Banks with the whole of its balances.

(1) The government kept a portion of this balance in its own Treasuries and on certain occasions lent it to Native States, various public bodies and private individuals of good standing at the prevailing rate of interest.

(2) If a transfer of money from one station to another is not considered safe by any person, he may deposit the sum in the Local Treasury and take a receipt instead which entitles him to draw out an identical sum from any other Treasury specified by him. The government charges a small commission for thus obviating the risk and cost of transfer of funds.

(3) The Indian Government has an extensive Savings Bank organisation through its Post Offices.

(4) *The Indian Government performs the functions of a Bank through sale of Council Bills and Sterling Bills.*

Question 7.—*How did the value of silver influence the Indian exchange (a) during the period 1876—93, and (b) during the period 1917—20 ?*

Answer :—

(a) See Ans. to Q. 7, 1922 II.

(b) See Ans. to Q. 9, 1921, and Q. 5, 1923.

Question 8.—*Summarise the main provisions of the Indian Paper Currency Act of 1920.*

Answer.—The earlier sections of the Paper Currency Act of 1920 make some administrative changes in the Currency Department ; but the principal provisions are with regard to the Paper Currency Reserve.

(1) *It was decided that at least 50 p. c. of the gross circulation should be kept in metallic reserve, although the power to issue 5 crores of notes against commercial bills of exchange in effect reduced this limit to about 47½ p. c. The metallic portion might include gold held by the Secretary of State not exceeding 5 crores.*

(2) *The securities portion was composed of Government of India and United Kingdom Securities of certain descriptions and Bills of Exchange which would mature within ninety days and satisfy conditions laid down by the Governor-General in Council, (not exceeding 5 crores). The function of the securities portion is to fill up the gap between the metallic portion of the Reserve and the gross circulation.*

It will be seen that the Act of 1920 provided the necessary elasticity of currency. In a period of expanding trade and rising prices there is a demand for more currency. Let us suppose that the metallic portion of the Reserve was 75 crores and the securities 55 crores on a given date. Under these conditions, the Secretary of State may sell Council Bills and buy with its proceeds Sterling Securities against which notes can be simultaneously issued in India. The increase in the note-issue may continue until the total value of securities has also become 75 crores.

The issue of currency notes against commercial bills of exchange originating in international trade is now adopted for the first time. The small limit of 5 crores has been chosen admittedly as an experimental measure. If the effects are found beneficial, the limit will doubtless be raised. The idea of issuing currency notes against commercial bills is to secure an expansion of the circulation in a time of active demand for money. The additional funds available will avoid an unusual and embarrassing tightness of the money market.

The Act also contained provision for the re-valuation of the gold and sterling securities at Rs. 10 to the sovereign.

Question 9.—'In the modern era of international commerce every civilized nation makes a number of payments to foreign countries and receives a number of payments from foreign countries.' Consider the different heads under which these payments are made and received by India.

Answer :—(1) India imports from foreign countries, and to that extent it is a *debtor*.

(2) India exports to foreign countries, and to that extent it is a *creditor*.

But India exports more than it imports ; therefore under the head of *imports and exports* it is a *creditor*.

(3) When India raises a *foreign loan* and brings it home, it is a *creditor*.

(4) When India pays *annual interest* on borrowed capital, it is a *debtor*.

(5) When India *repays a portion of its debt*, it is a *debtor*.

(6) The European merchants, bankers, lawyers and government officials residing in India *remit their earnings home*. Under this head India is *debtor*.

(7) Again India has to *remit annually money to England for Home Charges* for expenses incurred on its behalf, (e. g., interest on money borrowed by the Indian Government in England, furlough pay and pensions, expenditure of High Commissioner's establishments, etc). On this account India is a *debtor*.

(8) The *remittances* sent from European countries and America for the support of Christian missions and other religious or charitable purposes go to the *credit* of this country.

(9) India employs *British ships* for carrying its trade and it has to pay the freight charges which constitute one of its 'invisible imports'. Under this head India is a *debtor*.

(10) India makes payments in connection with foreign trade to foreign countries through the London Money Market ; and for this India has to pay *bankers' commissions* to British bankers. On this account India is a *debtor*.

(11) The *expenditure* of Indian students and visitors abroad makes India *debtor*.

(12) On the other hand, a large number of *European and American tourists* visit India every year. Their *expenditure* in this country comes to the *credit* side.

From the above statement it is evident that India must export more than it imports. Even after paying all the charges due to political subjection, India has generally a balance of trade in its favour.

Question 10.—*Write a short note on the public debt of India.*

Answer.—At the outset, the one peculiarity of the Indian debt should be emphasised, *viz.* that its burden had been comparatively slight in recent years till it was increased by India's war contribution of Rs. 150 crores to the Imperial Government. While the public debts of Western countries have run into hundreds of millions of pounds, chiefly owing to wars, a large part of the Indian debt has been contracted for *productive purposes* (for constructing railways and irrigation works).

In the time of the East India Company, political and commercial functions of the state were mixed up together. The continued wars which the Company had to face, went on swelling debt steadily from year to year, though a part of the deficit was supplied from the commercial profits of the Company. *The British conquest of India was secured out of Indian resources and the cost of the conquest was the main cause of the growing public debt of India.* The total 'territorial' debt of India in 1792 was £ 7 millions and increased to £ 30 millions in 1829, to more than £ 51 millions by the middle of the nineteenth century, and to £ 69½ millions in 1858. The Mutiny made huge additions to the public debt. It went up to about £ 129½ millions in 1876. The debt stood as follows during the subsequent years—

31st March	In sterling millions	In rupees (Rs. 15 = £1) millions	Total £	Interest £
1888	84'1	65'4	149'5	6'2
1893	106'7	68'6	175'3	6'7
1898	123'8	74'4	197'2	6'9
1903	133'8	78'2	212'0	7'1
1908	156'5	88'5	245'0	8'1
1913	179'1	95'2	274'3	9'5

The above table shows that loans were floated both in England and India, the first group being called *Sterling loans* and the second group, *Rupce loans*.

The 'ordinary' or unproductive debt (incurred for wars etc.) was gradually reduced. The productive debt (incurred for constructing railways and irrigation works, etc.) and the unproductive debts are distinguished in the following table—

Ordinary and Productive Debt.

31st March.	Ordinary £ millions.	Productive (rail- ways & irrigation) £ millions.	Total. £ millions.
1888	73 0	76·5	149·5
1893	65·0	110·3	175·3
1898	70 0	127·2	197·2
1903	59·1	152·9	212·0
1908	37·4	207·6	245·0
1913	25·0	249·3	274·3

Unremunerative debt shrank in 25 years from being $\frac{1}{2}$ to $\frac{1}{11}$ of the total volume of outstanding loans. There is a sort of sinking fund arrangement in which surplus revenues are accumulated for reduction of the unproductive debt, while for the redemption of the productive debt provision is made for annuities, etc., as in the case of the railways.

The position at the close of the year 1920—21 is given below. On 31st March, 1921, the outstanding sterling debt was 197·6 millions. The rupee debt was as follows—

Description of debts.	Crores.
6 per cent. war bonds	29·3
5½ " " " ...	29·1
5 " Debt " ...	45·0
4 " " " ...	17·2
3½ " " " ...	119·1
3 " " " ...	6·5
Other " " ...	1·0
Temporary, 5½ per cent. bonds	29·5
Treasury Bills issued to the public	37·7
" " Paper Currency Reserve	61·2
Savings Banks Balances	45·3
Post Office Cash Certificates	4·7

425·6

The public debt was distributed among the different forms as follows—

31st March.	Ordinary £ millions.	Productive £ millions.	Total £ millions.
1913	25·0	249·4	274·4
1914	12·8	261·3	274·1
1915	2·2	274·3	276·5
1916	2·0	276·8	278·8
1917	3·7	279·0	282·7
1918	67·2	283·1	350·3
1919	47·0	288·2	335·2

The Government raises, for its capital programme, rupee-loans in India and sterling loans in England. When the exchange was unstable, sterling borrowings entailed a heavy charge. It is desirable to raise as much capital in India as possible. The success of recent rupee loans is gratifying and indicates that much of the capital required by government is capable of being raised in this country.

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